UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010
or

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 0-29185

SAVE THE WORLD AIR, INC.
(Exact name of registrant as specified in its charter)

Nevada	**52-2088326**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

735 State Street, Suite 500
Santa Barbara, California 93101
(Address, including zip code, of principal executive offices
(805)-845-3561
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act: None.

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, $0.001 par value.

Check whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the Registrant's Common Stock outstanding as of November 10, 2010 was 86,982,588

SAVE THE WORLD AIR, INC.
FORM 10-Q
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PART I

Item 1. Financial Statements

SAVE THE WORLD AIR, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash	$ 24,536	$ 33,611
Other current assets	33,307	16,453
Total current assets	57,843	50,064
Property and Equipment, net of accumulated depreciation of $170,068 and $144,224 at September 30, 2010 and December 31, 2009, respectively	86,261	100,870
Other assets	11,020	11,020
Total assets	$ 155,124	$ 161,954
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities		
Accounts payable-related parties	$ 226,297	$ 188,820
Accounts payable-License Agreements	859,661	1,006,384
Accounts payable-other	689,770	512,161
Accrued expenses	856,581	1,305,605
Accrued professional fees	433,139	442,710
Loans payable-related parties and shareholders	90,868	125,233
Convertible debentures, net-of- discount	57,509	485,650
Fair value of derivative liabilities	2,778,335	1,706,343
Total current liabilities	5,992,160	5,772,906
Commitments and contingencies		
Stockholders' deficiency		
Common stock, $.001par value: 200,000,000 shares authorized, 86,070,644 and 71,289,396, shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	86,071	71,289
Common stock to be issued (110,000 shares at September 30, 2010)	27,500	—
Additional paid-in capital	49,570,855	43,255,773
Deficit accumulated during the development stage	(55,521,462)	(48,938,014)
Total stockholders' deficiency	(5,837,036)	(5,610,952)
Total liabilities and stockholders' deficiency	$ 155,124	$ 161,954

See notes to condensed consolidated financial statements.

SAVE THE WORLD AIR, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,		Inception (February 18, 1998) to September 30,
	2010	2009	2010	2009	2010
Net sales	$ —	$ —	$ —	$ —	$ 69,000
Cost of goods sold	—	—	—	—	24,120
Gross profit	—	—	—	—	44,880
Operating expenses	389,519	488,281	3,011,488	1,922,903	35,975,811
Research and development expenses	140,486	12,517	344,581	274,577	6,231,313
Non-cash patent settlement costs	—	—	—	—	1,610,066
Loss before other income (expense)	(530,005)	(500,798)	(3,356,069)	(2,197,480)	(43,772,310)
Other income (expense)					
Other income	—	—	5,196	—	4,056
Interest income	—	—	—	—	16,342
Interest and financing expense	(461,047)	(250,616)	(3,235,068)	(1,084,896)	(10,792,874)
Change in fair value of derivative liabilities	29,716	—	1,300,845	—	993,005
Costs of private placement	—	—	(1,129,212)	—	(1,640,715)
Costs to induce conversion of notes	—	—	(168,340)	—	(469,043)
Loss on disposition of equipment	—	—	—	—	(14,426)
Settlement of Debt Due Morale/Matthews	—	—	—	—	(927,903)
Settlement of litigation and debt	—	—	—	—	1,089,088
Loss before provision for income taxes	(961,336)	(751,414)	(6,582,648)	(3,282,376)	(55,514,780)
Provision for income taxes	—	—	800	800	6,682
Net loss	$ (961,336)	$ (751,414)	$ (6,583,448)	$ (3,283,176)	$(55,521,462)
Net loss per share, basic and diluted	$ (0.01)	$ (0.01)	$ (0.08)	$ (0.05)	
Weighted average common shares outstanding, basic and diluted	85,033,769	65,653,349	80,211,124	64,891,529	

See notes to condensed consolidated financial statements.

SAVE THE WORLD AIR, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
NINE MONTHS ENDED SEPTEMBER 30, 2010

	Price per Share	Common Stock Shares	Common Stock Amount	Common Stock to be Issued	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Deficiency
Balance, December 31, 2009		71,289,396	71,289	—	43,255,773	(48,938,014)	(5,610,952)
Common stock issued for convertible debt	$.15- $.40	12,646,499	12,647	27,500	3,603,106	—	3,643,253
Common stock issued to induce conversion of convertible debt	$.53	224,751	225	—	118,893	—	119,118
Fair value of warrants issued to induce conversion of convertible debt	—	—-	—	—	49,222	—	49,222
Common stock issued for services	$.43- $.48	1,560,099	1,560	—	712,077	—	713,637
Common stock issued as compensation	$.52- $.55	170,000	170	—	91,530	—	91,700
Common stock issued for settlement of accounts payable	$.34	12,121	12	—	4,109	—	4,121
Common stock issued upon exercise of options	$.27	167,778	168	—	45,132	—	45,300
Fair value of warrants issued for services	—	—	—	—	126,000	—	126,000
Fair value of options issued as compensation	—	—	—	—	114,563	—	114,563
Fair value of warrants issued and intrinsic value of beneficial conversion with convertible notes	—	—	—	—	1,450,450	—	1,450,450
Net loss for the nine months ended September 30, 2010	—	—	—	—	—	(6,583,448)	(6,583,448)
Balance, September 30, 2010		86,070,644	$ 86,071	$ 27,500	$ 49,570,855	$ (55,521,462)	$ (5,837,036)

See notes to condensed consolidated financial statements

SAVE THE WORLD AIR, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Inception (February 18, 1998) to September 30, 2010
Cash flows from operating activities			
Net Loss	$ (6,583,448)	$ (3,283,176)	$ (55,521,462)
Adjustments to reconcile net loss to net cash used in operating activities:			
Write off of intangible assets	—	—	505,000
Settlement of litigation and debt	—	—	(1,017,208)
Settlement of debt due Morale/Matthews	—	—	927,903
Stock based compensation expense	206,263	67,801	3,910,986
Issuance of common stock for services	713,637	137,500	6,501,288
Issuance of options for legal settlement	—	—	31,500
Issuance of warrants for legal settlement	—	—	4,957
Issuance of warrants for financing fees	—	1,248	153,501
Issuance of warrants for consulting fees	126,000	—	126,000
Increase in convertible notes related to default	35,313	58,100	294,654
Interest on related party loans	—	—	22,305
Patent acquisition cost	—	—	1,610,066
Amortization of issuance costs and original issue debt discounts including beneficial conversion feature-part of interest expense	3,179,799	994,476	10,272,853
Fair value of common stock and warrants issued to induce conversion of notes	168,340	—	469,043
Costs of private placement convertible notes	1,129,212	—	1,640,715
Change in fair value of derivative liability	(1,300,845)	—	(993,005)
Amortization of deferred compensation	—	—	3,060,744
Loss on disposition of assets	—	—	14,426
Depreciation and amortization of leasehold improvements	25,844	24,956	452,004
Bad debt	—	—	1,300
Changes in operating assets and liabilities:			
Accounts receivable	—	—	(1,380)
Inventory	—	—	—
Prepaid expenses and other	(16,854)	20,080	(33,227)
Other assets	—	230	(11,020)
Accounts payable and accrued expenses	34,334	627,504	4,574,766
Accounts payable – license agreements	(146,723)	136,250	143,161
Accounts payable – related parties	37,477	77,747	133,294
Net cash used in operating activities	(2,391,651)	(1,137,284)	(22,726,836)
Cash flows from investing activities			
Purchase of equipment	(11,235)	—	(566,619)
Proceeds from sale of equipment	—	—	17,478
Net cash used in investing activities	(11,235)	—	(549,141)
Cash flows from financing activities			
Net proceeds under equity line of credit	—	—	1,262,386
(Decrease) increase in payables to related parties and stockholder	(11,865)	24,348	622,847
Advances from founding executive officer	—	—	517,208
Net proceeds from issuance of convertible notes and warrants	2,390,376	1,107,320	10,377,619
Repayment of convertible notes	—	(45,352)	(282,121)
Proceeds from sale of stock and exercise of warrants and options	15,300	—	10,802,574
Net cash provided by financing activities	2,393,811	1,086,316	23,300,513
Net (decrease) increase in cash	(9,075)	(50,968)	24,536
Cash, beginning of period	33,611	59,346	—
Cash, end of period	$ 24,536	$ 8,378	$ 24,536

(continued)

SAVE THE WORLD AIR, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE ENTERPRISE)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(continued)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	Inception (February 18, 1998) to September 30, 2010
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	$ 16,485	$ 9,736	$ 154,557
Income taxes	$ 800	$ —	$ 6,682
Non-cash investing and financing activities			
Acquisition of intangible asset through advance from related party and issuance of common stock	$ —	$ —	$ 505,000
Deferred compensation for stock options issued for services	—	—	3,202,931
Purchase of property and equipment financed by advance from related party	—	—	3,550
Conversion of related party debt to equity	—	—	515,000
Issuance of common stock in settlement of payable	4,121	104,414	247,584
Cancellation of stock	—	—	8,047
Conversion of accounts payable and accrued expenses to common stock	—	—	612,521
Conversion of accounts payable and accrued expenses to convertible debentures	281,199	---	281,199
Conversion of related party debt to convertible debentures	22,500	—	67,500
Conversion of convertible debentures to common stock	3,643,253	460,129	10,011,817
Issuance of shares for settlement of loans and other payable to Morale/Matthews	—	—	2,783,711
Write off of deferred compensation	—	—	142,187
Fair value of derivative liability recorded as note discount	1,243,625	—	2,130,625
Proceeds of exercise of options applied to accounts payable	30,000	22,500	52,500
Fair value of warrants and beneficial conversion feature associated with issued convertible notes	1,450,450	1,002,163	7,391,527

See notes to condensed consolidated financial statements.

1. Organization and basis of presentation

Description of business

Save the World Air, Inc. ("STWA") designs, licenses and develops products to reduce operational costs for oil pipelines, and improve fuel economy and reduce emissions from diesel-powered internal combustion engines. The Company is a green technology company that leverages a suite of patented, patent-pending and licensed intellectual properties related to the treatment of fuels. Technologies patented by or licensed to us utilize either magnetic or uniform electrical fields to alter physical characteristics of fuels and are designed to create cleaner combustion. Cleaner combustion has been shown to improve performance, enhance fuel economy and/or reduce harmful emissions in laboratory testing.

The Company was incorporated on February 18, 1998, as a Nevada corporation, under the name Mandalay Capital Corporation. The Company changed its name to Save the World Air, Inc. on February 11, 1999, following the acquisition of marketing and manufacturing rights of the ZEFS technologies. Our executive offices are at 735 State Street, Suite 500, Santa Barbara, California 93101. The telephone number is (805)-845-3561. Our research and development facility is at 235 Tennant Avenue, Morgan Hill, California 95037. The telephone number is (408) 778-0101. The corporate website is www.stwa.com. The common stock is quoted under the symbol "ZERO" on the Over-the-Counter Bulletin Board

The Company's technology has two commercial applications; AOT™ (Applied Oil Technology) and ELEKTRA™ and legacy technologies of ZEFS and MK IV. AOT™ and ELEKTRA™ are nearing the end of the product development cycle, which will culminate in U.S. Department of Energy testing of AOT™ to determine the value of savings the product presents at full scale on an active pipeline within the RMOTC.

The AOT™ and ELEKTRA™ are technologies, which use electric fields to alter some physical properties of petrochemical fluids to reduce viscosity of the fluids. The Company differentiates AOT™ and ELEKTRA™ products based on their differing attributes and marketing focus. AOT™ products are primarily designed to reduce operation costs for oil pipelines, and ELEKTRA™ products are primarily designed to improve fuel economy and reduce emissions from diesel-powered internal combustion engines. Our AOT™ products are intended to reduce the viscosity of crude oil, thereby making it less restrictive to pipeline transport. Our AOT™ products will be marketed primarily to pipeline operators as well as to pilot and government mandated delivery programs. Our ELEKTRA™ products are intended to increase fuel efficiency and reduce emissions. ELEKTRA™ will be marketed primarily to specialty consumer accessories market for many types of diesel-fueled vehicles, including but not limited to trucks, trains, maritime, military and aviation.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Save the World Air, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K for scaled disclosures for smaller reporting companies. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in United States of America for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the consolidated financial position and the consolidated results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year.

The condensed consolidated balance sheet information as of December 31, 2009 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the SEC. These interim financial statements should be read in conjunction with that report.

Going Concern

Since its inception, the Company has been primarily engaged in organizational and pre-operating activities. The Company has generated insignificant revenues and has incurred accumulated losses of $55,521,462 from February 18, 1998 (Inception) through September 30, 2010. As reflected in the accompanying condensed consolidated financial statements, the Company had a net loss of $6,583,448 and a negative cash flow from operations of $2,391,651 for the nine months ended September 30, 2010, and had a working capital deficiency of $5,934,317 and a stockholders' deficiency of $5,837,036 at September 30, 2010. The Company is currently unable to meet its cash obligations and is in default of certain of its convertible note agreements and its obligations under its license agreements with Temple University (see Note 7."Research & Development"). As a result, the Company's independent registered public accounting firm, in their report on the Company's 2009 consolidated financial statements, raised substantial doubt about the Company's ability to continue as a going concern.

The Company's operations to date have been funded through issuances of its common stock and convertible notes whereby the Company raised an aggregate $21,180,193 from February 18, 1998 (inception) through September 30, 2010. Based on its current operating plan, the Company does not have sufficient cash and cash equivalents to implement its operating plan. The Company will need to obtain additional financing in addition to the funds already raised through the sale of equity securities to fund its cash needs and continue its operations. Additional financing, whether through public or private equity or debt financing, arrangements with stockholders or other sources to fund operations, may not be available, or if available, may be on terms unacceptable to the Company. The Company's ability to maintain sufficient liquidity is dependent on its ability to raise additional capital. If the Company issued additional equity securities to raise funds, the ownership percentage of its existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of the Company's common stock. Debt incurred by the Company would be senior to equity in the ability of debt holders to make claims on the Company's assets. The terms of any debt issued could impose restrictions on the Company's operations. If adequate funds are not available to satisfy either medium or long-term capital requirements, the Company's operations and liquidity could be materially adversely affected and the Company could be forced to cut back our operations.

2. Summary of significant accounting policies

Development stage enterprise

The Company is a development stage enterprise. All losses accumulated since the inception of the Company have been considered as part of the Company's development stage activities.

The Company's focus is on product development and marketing of proprietary devices that are designed to reduce operation costs of petrochemical pipeline transport and fuel efficiency of diesel engines and has not yet generated meaningful revenues. The technologies are called "AOT" and "ELEKTRA". The Company is currently in the mid-late stages of developing its AOT™ and ELEKTRA™ technologies for commercial applications. Expenses have been funded though the sale of company stock, convertible notes and the exercise of warrants. The Company has taken actions to secure the intellectual property rights to the AOT™ and ELEKTRA™ technologies and is the worldwide exclusive licensee for patent pending technologies associated with the development of ELEKTRA™.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates were made in connection with preparing the Company's financial statements. Actual results could differ from those estimates.

Loss per share

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution, using the treasury stock method that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the loss of the Company. In computing diluted loss per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants may have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants. For the nine month periods ended September 30, 2010 and 2009, the dilutive impact of outstanding stock options of 4,865,265 and 4,851,225 respectively, and outstanding warrants of 21,421,650 and 11,847,436 have been excluded because their impact on the loss per share is anti-dilutive.

Stock-based compensation

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Options vest and expire according to terms established at the grant date.

Accounting for Warrants and Derivatives

The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, the Company uses a probability weighted average series Black-Scholes-Merton option pricing models to value the derivative instruments at inception and on subsequent valuation dates.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Fair value of financial instruments

Effective January 1, 2008, fair value measurements are determined by the Company's adoption of authoritative guidance issued by the FASB, with the exception of the application of the statement to non-recurring, non-financial assets and liabilities as permitted. The adoption of the authoritative guidance did not have a material impact on the Company's fair value measurements. Fair value is defined in the authoritative guidance as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than the quoted prices in active markets, are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's assumptions.

The Company is required to use observable market data if such data is available without undue cost and effort

The following table presents certain investments and liabilities of the Company's financial assets measured and recorded at fair value on the Company's condensed consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of September 30, 2010.

	Level 1	Level 2	Level 3	Total
Fair value of Derivative Liability	$ -0-	$ -0-	$ 2,778,335	$ 2,778,335

Recent Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board (FASB) issued new accounting guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This standard is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 will require the Company to apply this guidance retrospectively effective as of January 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As the Company plans to implement this standard prospectively, the effect of this guidance will be limited to future transactions. The Company does not expect adoption of this standard to have a material impact on its financial position or results of operations as it has no material research and development arrangements which will be accounted for under the milestone method.

In January 2010, the FASB issued new accounting guidance which requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The guidance also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. As this guidance requires only additional disclosure, there should be no impact on the consolidated financial statements of the Company upon adoption.

In October 2009, a new accounting consensus was issued for multiple-deliverable revenue arrangements. This consensus amends existing revenue recognition accounting standards. This consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management’s estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previously the existing accounting consensus required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under the existing accounting consensus, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

In June 2009, the FASB issued authoritative guidance on consolidation of variable interest entities. The new guidance is intended to improve financial reporting by requiring additional disclosures about a company’s involvement in variable interest entities. This new guidance is effective for fiscal years and interim periods beginning after November 15, 2009. The Company adopted this guidance effective January 3, 2010, and it had no impact on the consolidated financial statements of the Company

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (the "SEC") did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

3. Certain relationships and related transactions

Loans from related parties

As at September 30, 2010, and December 31, 2009, the Company had loans payable to officers and an employee of the Company in the amount of $90,868 and $125,233, respectively. These loans are unsecured, are due on demand and bear interest at 6% per annum. The Company converted $22,500 of this related party debt to a convertible debenture during the period ending September 30, 2010.

Accounts Payable to related parties

As of September 30, 2010 and December 31, 2009, the Company had accounts payable to related parties in the amount of $226,297 and $188,820, respectively. These amounts are unpaid Directors Fees and expenses incurred by officers and directors.

4. Convertible Debentures

Convertible debentures consist of the following:

	Maturity dates	September 30, 2010	December 31, 2009
2008 Fall Offering	October 31, 2009	—	81,419
2008 Winter Offering	December 5, 2009	6,545	12,186
2009 Winter Offering – I	April 26, 2009	—	210,773
2009 Winter Offering – II	March 12, 2010	—	95,502
2009 Spring	April 30, 2010	12,606	88,000
2009 Summer	September 28, 2012	—	157,765
2009 Wellfleet	September 28, 2012	26,543	75,000
2009 Fall Offering	January 15, 2012	76,148	344,500
2010 Winter Offering	March 31, 2011	—	—
2010 Spring Offering	April 30, 2011	—	—
2010 Summer Offering	July 31, 2011	—	—
2010 Fall Offering	September 30, 2011	174,482	—
Sub-total		296,324	1,065,145
Less, remaining debt discount		(238,815)	(579,495)
Convertible debentures, net		$ 57,509	485,650

2008 Fall Offering. From September 8, 2008 to October 31, 2008, the Company conducted an offering (the "2008 Fall Offering") of up to $500,000 aggregate face amount of its Convertible Notes. A total of $198,220 aggregate face amount of the 2008 Fall Notes were sold for an aggregate purchase price of $180,200 net proceeds. Therefore, while the stated interest on the 2008 Fall Notes is 0%, the implied interest rate on the 2008 Fall Notes is 10%. The 2008 fall notes matured on the first anniversary of the date of issuance. The 2008 Fall Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Fall Offering (the "Conversion Price"). Up to 1,321,466 Conversion Shares are issuable at a Conversion Price of $0.15 per share.

Each of the investors in the 2008 Fall Offering received, for no additional consideration, a warrant (the "2008 Fall Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Fall Notes) are convertible (the "2008 Fall Warrant Shares"). Each 2008 Fall Warrant is exercisable on a cash basis only at a price of $0.50 per share, and is exercisable for a period of two years from the date of issuance. Up to 660,734 2008 Fall Warrant Shares are initially issuable upon exercise of the 2008 Fall Warrants.

The aggregate value of the Fall 2008 Offering Warrants issued in connection with the October 31, 2008 closing were valued at $53,320 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 4.68%; dividend yield of 0%; volatility factors of the expected market price of common stock of 145.98%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $126,880. The value of the Fall 2008 Offering Warrants, the beneficial conversion feature, and the transaction fees of $18,020 are considered as debt discount and were amortized over the life of the Note.

As of September 30, 2010, investors have converted $198,220 of the Convertible Notes into 1,367,773 shares of the Company's common stock, which included 46,307 shares issued for late penalty and interest. At September 30, 2010, there was no outstanding balance.

2008 Winter Offering. From November 24, 2008 to December 5, 2008, the Company conducted an offering (the "2008 Winter Offering") of up to $500,000 aggregate face amount of its Convertible Notes. A total of $524,700 aggregate face amount of the 2008 Winter Notes were sold for an aggregate purchase price of $477,000 net proceeds. Therefore, while the stated interest on the 2008 Winter Notes is 0%, the implied interest rate on the 2008 Winter Notes is 10%. The 2008 Winter Notes will mature on the first anniversary of the date of issuance and a note in the amount of $5,500 is in default at September 30, 2010. The 2008 Winter Notes are convertible, at the option of the noteholders, into shares of common stock of the Company (the "Conversion Shares") at a conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing date of the 2008 Winter Offering (the "Conversion Price"). Up to 3,086,470 Conversion Shares are issuable at a Conversion Price of $0.17 per share.

Each of the investors in the 2008 Winter Offering received, for no additional consideration, a warrant (the " 2008 Winter Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the (2008 Winter Notes) are convertible (the "2008 Winter Warrant Shares"). Each 2008 Winter Warrant is exercisable on a cash basis only at a price of $0.30 per share, and is exercisable for a period of two years from the date of issuance. Up to 1,543,235 2008 Winter Warrant Shares are initially issuable upon exercise of the 2008 Winter Warrants.

The aggregate value of the Winter 2008 Offering Warrants issued in connection with the December 5, 2008 closing were valued at $168,925 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 3.42%; dividend yield of 0%; volatility factors of the expected market price of common stock of 153.56%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $308,075. The value of the Winter 2008 Offering Warrants, the beneficial conversion feature, and the transaction fees of $47,700 are considered as debt discount and were amortized over the life of the Note.

As of September 30, 2010, investors have converted $519,200 of the Convertible Notes into 3,054,117 shares of the Company's common stock. As of September 30, 2010, one note was in default and the outstanding balance was $6,545, including $1,045 in penalties and interest.

2009 Winter Offering I. From January 13, 2009 to January 26, 2009, the Company conducted and concluded a private offering (the "Winter 2009 Offering I") of up to $250,000 aggregate face amount of its convertible notes (the "Winter 2009 Notes") with 8 accredited investors. A total of $250,000 aggregate face amount of the Winter 2009 Notes were sold for an aggregate purchase price of $250,000. The Winter 2009 Notes bear interest at 10% per annum, payable at maturity. The Winter 2009 Notes mature three months from their date of issuance and notes in the amount of $175,000 are in default at September 30, 2010. The Winter 2009 Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing dates of the Winter 2009 Offering (the "Conversion Price"). Up to 694,444 Conversion Shares are initially issuable at a Conversion Price of $0.36 per share.

Each of the investors in the Winter 2009 Offering received, for no additional consideration, a warrant (the "Winter 2009 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the Winter 2009 Notes are convertible (the "Warrant Shares"). Each Winter 2009 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 347,722 Warrant Shares are initially issuable on exercise of the Winter 2009 Warrants.

The aggregate value of the Winter 2009 Offering Warrants issued in connection with the January 26, 2009 closing were valued at $66,178 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.85%; dividend yield of 0%; volatility factors of the expected market price of common stock of 151.42%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $183,822. The value of the Winter 2009 Offering Warrants and the beneficial conversion feature are considered as debt discount and were amortized over the life of the notes.

As of September 30, 2010 investors have converted $200,000 of the Convertible Notes plus $39,761 of penalty and interest into 780,307 shares of the Company's common stock,. In addition, the Company has paid $50,000 plus penalty and interest as a redemption of one of the defaulted convertible notes. There is no outstanding balance at September 30, 2010.

2009 Winter Offering II. From February 4, 2009 to March 12, 2009, the Company conducted and concluded a private offering (the "Winter 2009 Offering II") of up to $250,000 aggregate face amount of its convertible notes (the "Winter 2009 #2 Notes") with 17 accredited investors. A total of $247,302 aggregate face amount of the Winter 2009 #2 Notes were sold for an aggregate purchase price of $224,820. While the stated interest rate on the Winter 2009#2 Notes is 0%, the implied interest rate on the Winter 2009 #2 Notes is 10% per annum. The Winter 2009 #2 Notes mature on the first anniversary of their date of issuance and a note in the amount of $55,000 is in default at June 30, 2010. The Winter 2009 #2 Notes are convertible, at the option of the noteholder, into shares of common stock of the Company (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the Company's common stock for the five trading days preceding the closing dates of the Winter 2009 #2 Offering (the "Conversion Price"). Up to 772,818 Conversion Shares are initially issuable at a Conversion Price of $0.32 per share.

Each of the investors in the Winter 2009 #2 Offering received, for no additional consideration, a warrant (the "Winter 2009 #2 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the Winter 2009 #2 Notes are convertible (the "Warrant Shares"). Each Winter 2009 #2 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 386,409 Warrant Shares are initially issuable on exercise of the Winter 2009 #2Warrants.

The Company received $224,820 in net proceeds in the Winter 2009 #2 Offering which was used for general corporate purposes and working capital. The aggregate value of the Winter 2009 #2 Offering Warrants issued in connection with the January 26, 2009 closing were valued at $62,028 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 1.03%; dividend yield of 0%; volatility factors of the expected market price of common stock of 156%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $161,791. The value of the Winter 2009 #2 Offering Warrants, the beneficial conversion feature, and the transaction fees of $22,482 are considered as debt discount and were amortized over the life of the Note.

As of September 30, 2010, investors have converted $247,302 of the Convertible Notes plus $6,876 in penalty and interest into 794,306 shares of the Company's common stock. There is no outstanding balance at September 30, 2010.

2009 Spring Offering. From March 17, 2009 to April 30, 2009, the Company conducted and concluded a private offering (the "Spring 2009 Offering") of up to $300,000 aggregate face amount of its convertible notes (the "Spring 2009 Notes") with 11 accredited investors. A total of $181,500 aggregate face amount of the Spring 2009 Notes were sold for an aggregate purchase price of $165,000. The Spring 2009 Notes mature on the first anniversary of their date of issuance, are convertible, at the option of the noteholder, into up to 672,222 shares of common stock of the Company at a conversion price of $0.27 per share.

Each of the investors in the Spring 2009 Offering received, for no additional consideration, a warrant (the "Spring 2009 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 50% of the number of shares of common stock into which the Spring 2009 Notes are convertible (the "Warrant Shares"). Each Spring 2009 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable for a period of two years. Up to 336,111 Warrant Shares are initially issuable on exercise of the Spring 2009 Warrants.

The Company received $165,000 in net proceeds in the Spring 2009 Offering which was used for general corporate purposes and working capital. The aggregate value of the Spring 2009 Offering Warrants issued in connection with the April 30, 2009 closing were valued at $39,994 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.94%; dividend yield of 0%; volatility factors of the expected market price of common stock of 156.39%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $96,827. The value of the Spring 2009 Offering Warrants, the beneficial conversion feature, and the transaction fees of $16,500 are considered as debt discount and were amortized over the life of the Note.

As of September 30, 2010, investors have converted $170,500 of the Convertible Notes plus penalty and interest of $6,690 into 656,257 shares of the Company's common stock. As of September 30, 2010 there were two notes in default and the outstanding balance was $12,606 which includes $1,606 of penalty and interest.

2009 Summer Offering. From June 9, 2009 to September 28, 2009, the Company conducted and concluded a private offering (the "Summer 2009 Offering") of up to $500,000 aggregate face amount of its convertible notes (the "Summer 2009 Notes") with interest compounded quarterly at the annual rate of seven percent (7%) payable at maturity. A total of $467,500 Summer 2000 Notes were sold to 17 accredited investors. The Summer 2009 Notes mature on the second anniversary of the closing of this offering and will be convertible, at the option of the noteholder, into up to 1,870,000 shares of our common stock at a conversion price of $0.25 per share.

Each of the investors in the Summer 2009 Offering will receive, for no additional consideration, a warrant (the "Summer 2009 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Summer 2009 Notes are convertible (the "Warrant Shares"). Each Summer 2009 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of thirty six months. Up to 1,870,000 Warrant Shares are initially issuable on exercise of the Summer 2009 Warrants.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. The Company considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, the Company determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount.. As a result, the Company determined that these warrants are not considered indexed to the Company's own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

The Company determined that the fair value of the warrant liability at issuance on September 28, 2009 to be $668,525 based upon a weighted average Black-Sholes-Merton calculation. The Company recorded the full value of the derivative as a liability at issuance with an offset to valuation discount. As the fair value of the liability of $668,525 exceeded the note value of $467,500, the excess of the liability over the note amount of $201,025 was considered as a cost of the private placement and recorded as such in 2009. The fair value of the warrant liability as of September 30, 2010 was $609,620 (see Note 8).

As of September 30, 2010, investors have converted $467,500 of the Convertible Notes plus $5,002 of penalties and interest into 1,891,564 shares of the Company's common stock. There was no outstanding balance at September 30, 2010.

2009 Wellfleet Offering. On November 20, 2009, the Company completed a private financing of $75,000 principal amount of 7% Convertible Promissory Notes (the "**Notes**") and 300,000 Common Stock Purchase Warrants exercisable at $.30 per share (the "**Warrants**"), pursuant to a Securities Purchase Agreement (the "**Purchase Agreement**") with 3 accredited investors (the "**Note Offering**"), through Sandgrain Securities, Inc., as placement agent.

The Notes are initially convertible into the Company's common stock at a price of $.25 per share and accrue interest at 7% per year with a default rate of 10%, payable quarterly in cash. Interest payments are payable in stock at the sole discretion of the Note holders, or, in the event that shares issuable thereon are registered under the Securities Act of 1933, as amended (the "**Act**"), or otherwise freely tradable pursuant to Rule 144, at the discretion of the Company as well. The Notes and any unpaid interest are due and fully payable on September 28, 2012. The conversion price of the Notes is adjustable for corporate events such as merger, reclassification or stock splits.

Pursuant to the terms of the Purchase Agreement, and among other terms, in the event the Company conducts any subsequent financings (each, a "**Follow On Offering**") of any kind other than an offering of securities substantially similar to the Notes and Warrants or certain other exempted issuances enumerated in the Notes, the Notes may, at the discretion of each holder thereof, be exchanged in whole or in part to the extent of outstanding principal and/or interest in such Note, into the securities offered in the Follow On Offering, by applying and exchanging the outstanding principal and interest of such Notes towards the purchase price of the securities offered in such Follow On Offering, at the same price and terms of the Follow On Offering.

The Company paid a placement agent fee to Sandgrain Securities, Inc. of (i) $6,000 in cash, (ii) 24,000 shares of Common Stock constituting 8% of the number of Conversion Shares initially issuable upon exercise of the Notes, and (iii) 24,000 warrants, substantially similar to the Warrants sold to investors (the "Placement Agent Warrants"), in connection with the Note Offering, in addition to legal fees.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. The Company considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, the Company determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount.. As a result, the Company determined that these warrants are not considered indexed to the Company's own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

The Company determined that the fair value of the warrant liability at issuance on November 20, 2009 to be $75,000 based upon a weighted average Black-Sholes-Merton calculation. The Company recorded the full value of the derivative as a liability at issuance with an offset to valuation discount. The fair value of the warrant liability as of September 30, 2010 was $97,800 (see Note 8).

As of September 30, 2010 investors have converted $50,000 of the Convertible Notes plus $1,750 of accrued interest into 207,000 shares of the Company's common stock. The outstanding balance at September 30, 2010 was $26,543 which includes $1,543 of accrued interest.

2009 Fall Offering. From October 2, 2009 to January 15, 2010, the Company conducted and completed a private offering (the "Fall 2009 Offering") consisting of an aggregate of $1,588,125 of 7% Convertible Promissory Notes (the "Notes") with interest compounded quarterly at the annual rate of 7% payable at maturity, and warrants to purchase an aggregate of 6,352,500 shares of our common stock (the "Fall 2009 Warrants"). The Company received $1,284,425 net proceeds, of which $344,500 was received as of December 31, 2009. The Fall 2009 Notes mature on the second anniversary of the closing of this offering and will be convertible, at the option of the noteholder, into up to 6,352,500 shares of our common stock at a conversion price of $0.25 per share. The Fall 2009 Warrants are for a term of three years at an exercise price of $0.30 per share.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. The Company considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, the Company determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount. As a result, the Company determined that these warrants are not considered indexed to the Company's own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

The Company determined that the fair value of the warrant liability at issuances to be $3,027,815 based upon a weighted average Black-Scholes-Merton calculation (See Note 8), of which, $654,978 was recorded on December 31, 2009 and $2,372,837 was recorded on January 15, 2010. The Company recorded the full value of the derivative of $2,372,837 as a liability at issuance with an offset to valuation discount. As the fair value of the liability of $2,372,837 exceeded the note value of $1,243,625, the excess of the liability over the note amount of $1,129,212 was considered to be cost of the private placement and was recorded during the period. The fair value of the warrant liability as of September 30, 2010 was $2,070,915 (see Note 8).

As of September 30, 2010, investors have converted $1,515,626 of the Convertible Notes plus interest of $7,534 into 6,092,635 shares of the Company's common stock. The outstanding balance at September 30, 2010 is $76,148 which includes $3,648 in accrued interest.

2010 Winter Offering. From February 15, 2010 to March 31, 2010, the Company conducted a private offering (the "Winter 2010 Offering") consisting of an aggregate of $885,863 face amount of its Convertible Promissory Notes (the "Winter 2010 Notes") have been sold for an aggregate purchase price of $805,330. While the stated interest rate on the Winter 2010 Notes is 0%, the implied interest rate on the Winter 2010 Notes is 10% per annum. The Winter 2010 Notes mature on the first anniversary of their date of issuance. The Winter 2010 Notes are convertible, at the option of the noteholder, into 2,214,657 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.40 per share (the "Conversion Price").

Each of the investors in the Winter 2010 Offering received, for no additional consideration, a warrant (the "Winter 2010 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Winter 2010 Notes are convertible (the "Warrant Shares"). Each Winter 2010 Warrant is exercisable on a cash basis only at an initial price of $0.40 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 2,214,657 Warrant Shares are initially issuable to date on exercise of the Winter 2010 Warrants.

The Company received $805,330 in net proceeds in the Winter 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Winter 2010 Offering Warrants issued were valued at $476,268 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 1.02; dividend yield of 0%; volatility factors of the expected market price of common stock of 135%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $329,062. As of September 30, 2010, the aggregate value of the Winter 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $80,533 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of September 30, 2010, investors have converted $885,863 of the Convertible Notes into 2,214,657 shares of the Company's common stock. There was no outstanding balance at September 30, 2010.

2010 Spring Offering. From April 15, 2010 to April 30, 2010, the Company conducted a private offering (the "Spring 2010 Offering") consisting of an aggregate of $143,000 face amount of its Convertible Promissory Notes (the "Spring 2010 Notes") have been sold for an aggregate purchase price of $130,000. While the stated interest rate on the Spring 2010 Notes is 0%, the actual interest rate on the Spring 2010 Notes is 10% per annum. The Spring 2010 Notes mature on the first anniversary of their date of issuance. The Spring 2010 Notes are convertible, at the option of the noteholder, into 357,500 shares of common stock of the Company (the "Conversion Shares") at an initial conversion price of $0.40 per share (the "Conversion Price").

Each of the investors in the Spring 2010 Offering received, for no additional consideration, a warrant (the "Spring 2010 Warrants"), entitling the holder to purchase a number of shares of the Company's common stock equal to 100% of the number of shares of common stock into which the Spring 2010 Notes are convertible (the "Warrant Shares"). Each Spring 2010 Warrant is exercisable on a cash basis only at an initial price of $0.40 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 357,500 Warrant Shares are initially issuable to date on exercise of the Spring 2010 Warrants.

The Company received $130,000 in net proceeds in the Spring 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Spring 2010 Offering Warrants issued were valued at $62,730 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .41; dividend yield of 0%; volatility factors of the expected market price of common stock of 110%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $67,270. As of September 30, 2010, the aggregate value of the Spring 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $13,000 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of September 30, 2010, investors have converted $143,000 of the Convertible Notes into 357,000 shares of the Company's common stock. There was no outstanding balance at September 30, 2010.

2010 Summer Offering. From June 14, 2010 to July 31, 2010, the Company conducted and concluded a private offering (the "Summer 2010 Offering") consisting of up to $500,000 aggregate face amount of its convertible notes (the " Summer 2010 Notes). A total of $392,150 Summer 2010 Notes were sold to twenty six accredited investors for an aggregate purchase price of $356,500. While the stated interest rate on the Summer 2010 Notes is 0%, the actual interest rate on the Summer 2010 Notes is 10% per annum. The Summer 2010 Notes mature on the first anniversary of of the closing of this offering and will be convertible, at the option of the noteholder, into up to 1,568,600 shares of our common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Summer 2010 Offering will receive, for no additional consideration, a warrant (the "Summer 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Summer 2010 Notes are convertible (the "Warrant Shares"). Each Summer 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 1,568,600 Warrant Shares are initially issuable on exercise of the Summer 2010 Warrants.

The Company received $356,500 in net proceeds in the Summer 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Summer 2010 Offering Warrants issued were valued at $209,512 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .55; dividend yield of 0%; volatility factors of the expected market price of common stock of 132%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $146,988. As of September 30, 2010, the aggregate value of the Summer 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $35,650 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of September 30, 2010, investors have converted $392,150 of the Convertible Notes into 1,568,600 shares of the Company's common stock. There was no outstanding balance at September 30, 2010.

2010 Fall Offering. From August 10, 2010 to September 30, 2010, the Company conducted and concluded a private offering (the "Fall 2010 Offering") consisting of up to $600,000 aggregate face amount of its convertible notes (the " Fall 2010 Notes). A total of $174,482 Fall 2010 Notes were sold to ten accredited investors for an aggregate purchase price of $158,620. While the stated interest rate on the Fall 2010 Notes is 0%, the actual interest rate on the Fall 2010 Notes is 10% per annum. The Fall 2010 Notes mature on the first anniversary of the closing of this offering and will be convertible, at the option of the noteholder into 697,928 shares of the Company's common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall 2010 Offering will receive, for no additional consideration, a warrant (the "Fall 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall 2010 Notes are convertible (the "Warrant Shares"). Each Fall 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 697,928 Warrant Shares are initially issuable on exercise of the Fall 2010 Warrants.

The Company received $158,620 in net proceeds in the Fall 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Fall 2010 Offering Warrants issued were valued at $88,113 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .42; dividend yield of 0%; volatility factors of the expected market price of common stock of 135%; and an expected life of two years (statutory term) and vest immediately upon issuance. The Company also determined that the notes contained a beneficial conversion feature of $70,507. As of September 30, 2010, the aggregate value of the Fall 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $15,862 are considered as debt discount and will be amortized over the life of the notes.

As of September 30, 2010, there were no conversions made and the outstanding balance was $174,620.

5. Capital stock

During the nine months ended September 30, 2010, the Company issued 12,646,499 shares of common stock in exchange for conversion of $3,643,253 of Convertible Notes.

During the nine months ended September 30, 2010, the Company issued 224,751 shares of common stock valued at $119,118 to induce conversion of Convertible Notes. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 1,560,099 shares of common stock in exchange for consulting services in the amount of $713,637. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 170,000 shares as employee compensation valued at $91,700. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 12,121 shares of common stock in settlement of accounts payable of $4,121. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 167,778 shares of common stock upon exercise of options at $0.27 per share and valued at $45,300.

6. Stock options and warrants

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Options vest and expire according to terms established at the grant date.

Options

The Company currently issues stock options to employees, directors and consultants under the 2004 Stock Option Plan (the Plan). The Company could issue options under the Plan to acquire up to 5,000,000 shares of common stock. In February 2006, the board approved an amendment to the Plan (approved by the Shareholders in May 2006), increasing the authorized shares by 2,000,000 shares to 7,000,000 shares. At September 30, 2010, 2,384,735 were available to be granted under the Plan. Prior to 2004, the Company granted 3,250,000 options outside the Plan to officers of the Company of which 250,000 are still outstanding.

Employee options vest according to the terms of the specific grant and expire from 5 to 10 years from date of grant. Non-employee option grants to date are vested upon issuance. The weighted-average, remaining contractual life of employee options outstanding at September 30, 2010 was 6.6 years. Stock option activity for the period January 1, 2010 to September 30, 2010, was as follows:

	Weighted Avg. Options	Weighted Avg. Exercise Price
Options outstanding, January 1, 2010	4,851,225	0.52
Options granted	181,818	0.55
Options exercised	(167,778)	0.27
Options forfeited	—	—
Options cancelled	—	—
Options outstanding, September 30, 2010	4,865,265	$ 0.53

The weighted average exercise prices, remaining contractual lives for options granted, exercisable, and expected to vest under the Plan as of September 30, 2010 were as follows:

	Outstanding Options				Exercisable Options		
Option Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Exercise Price		Shares	Weighted Average Exercise Price	
$ 0.21 - $ 0.99	4,477,719	6.9	$	0.46	4,295,901	$	0.45
$ 1.00 - $ 1.99	327,546	4.6	$	1.25	327,546	$	1.25
$ 2.00 - $ 2.26	60,000	0.9	$	2.26	60,000	$	2.26
	4,865,265	6.6	$	0.53	4,683,447	$	0.53

As of September 30, 2010 the market price of the Company's stock was $0.40 per share. During the nine months ended September 30, 2010, the Company amortized $114,563 of compensation cost based on the vesting of the options. Future unamortized compensation expense on the outstanding options at September 30, 2010 is $32,228. At September 30, 2010, the aggregate intrinsic value of the options outstanding and exercisable was $322,189.

Black-Scholes-Merton value of options

During the nine months ended September 30, 2010 and 2009, the Company valued options for pro-forma purposes at the grant date using the Black-Scholes-Merton pricing model with the following average assumptions:

	September 30,	
	2010	**2009**
Expected life (years)	5.5	5.5
Risk free interest rate	3.63%	2.57%
Volatility	129.95%	129.00%
Expected dividend yield	0.00%	0.00%

The weighted average fair value for options granted in 2009 was $0.27. The weighted average for options granted during the nine months ended September 30, 2010 was $0.55.

Warrants

The following table summarizes certain information about the Company's stock purchase warrants from January 1, 2010 to September 30, 2010:

	Warrants	**Weighted Avg. Exercise Price**	
Warrants outstanding, January 1, 2010	13,346,764		0.52
Warrants granted	10,296,646		0.33
Warrants exercised	—		—
Warrants cancelled	(2,221,759)		0.71
Warrants outstanding, September 30, 2010	21,421,651	$	0.41

	Outstanding Warrants				**Exercisable Warrants**		
Warrant Exercise Price Per Share	Shares	Life (Years)	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	
$ 0.30 - $ 0.99	20,198,979	1.6	$	0.37	20,198,979	$	0.37
$ 1.00 - $ 1.99	1,135,370	2.4	$	1.00	1,135,370	$	1.00
$ 2.00 - $ 2.70	87,302	.6	$	2.70	87,302	$	2.70
	21,421,651	1.7	$	0.41	21,421,651	$	0.41

As of September 30, 2010 the market value of the Company's stock was $0.40 per share, and the aggregate intrinsic value of the warrants outstanding was $1,253,972.

7. Research and development

The Company has research and development facilities in Morgan Hill, California. The Company has tested products incorporating our ZEFS, MK IV and ELEKTRA technologies for multiple makes and models diesel engines, motorbikes, boats, generators, lawnmowers and other small engines. The Company has purchased test vehicles, test engines and testing equipment. The Company incurred $344,581 and $274,577 for the nine months ended September 30, 2010 and 2009, respectively, on its research and development activities.

Temple University License Agreements

The Company has also entered into a research and development agreement (R&D Agreement) with Temple University to conduct further research on the ELEKTRA technology. Under the R&D Agreement Temple University will conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements (defined below), including design and manufacture of prototypes utilizing electric fields to improve diesel, gasoline and kerosene fuel injection in engines using such fuels and a device utilizing a magnetic field to reduce crude oil viscosity for crude oil (paraffin and mixed base) and edible oil flow in pipelines. If the research project yields results within the scope of the technologies licensed pursuant to the License Agreements, those results will be deemed included as rights licensed to the Company pursuant to the License Agreements. If the research project yields results outside of the scope of the technologies covered by the License Agreements, the Company has a six-month right of first negotiation to enter into a new worldwide, exclusive license agreement with Temple University for the intellectual property covered by those results. Pursuant to the R&D Agreement, the Company will make payments to Temple University in the aggregate amount of $500,000. At September 30, 2010 the Company has completed payment in full of $500,000 under the R&D Agreement.

The Company has entered into three License Agreements with Temple University covering Temple University's current patent applications concerning certain electric field effects on gasoline, kerosene and diesel fuel particle size distribution, and concerning electric field effects on crude oil and edible oil viscosity. Initially, the License Agreements are exclusive and the territory licensed to the Company is worldwide. Pursuant to the License Agreements, the Company will pay to Temple University (i) license fees in the aggregate amount of $300,000. A payment of $50,000 was due on November 1, 2006; a payment of $100,000 was due on March 2, 2007; a payment of $75, 000 was due on February 2, 2008 and the final payment was due on February 2, 2009. Annual maintenance fees of $25,000 for the first license were due on November 1, 2007 and November 1, 2008. Annual maintenance payments of $150,000 for two of the licenses were due January 1, 2010. In addition, each License Agreement separately provides that the Company will pay royalties to Temple University on net sales of products incorporating the technology licensed under that License Agreement in an amount equal to 7% of the first $20 million of net sales, 6% of the next $20 million of net sales and 5% of net sales in excess of $40 million. Sales under the three License Agreements are not aggregated for purposes of calculating the royalties payable to Temple University. In addition, the Company has agreed to bear all costs of obtaining and maintaining patents in any jurisdiction where the Company directs Temple University to pursue a patent for either of the licensed technologies. Should the Company not wish to pursue a patent in a particular jurisdiction, that jurisdiction would not be included in the territory licensed to the Company.

On November 10, 2008, the Company received written notice from Temple University of a material breach relating to required payments under the License Agreements. The notice provides the Company with 60 days' notice to cure the material breach. The Company's failure to cure could result in a termination of the License Agreements. If the termination occurs, the Company estimates this would have a material adverse impact on the Company's financial condition and operations. Under the License Agreements the Company is subject to a penalty of 1% per month of the amounts due and unpaid under the License Agreements.

As of September 30, 2010, the Company is in default on the three License Agreements in the total amount of $859,661 which includes $234,661 of penalty interest and the Company has accrued this in the accompanying financial statements. At September 30, 2010 and December 31, 2009, the Company owed to Temple University a total of $859,661 and $1,006,384, respectively for the License Agreements, Maintenance Fees, and penalties. (See "Note 10. Subsequent Events")

8. Derivative liability

In June 2008, the FASB issued authoritative guidance on determining whether an instrument (or embedded feature) is indexed to an entity's own stock. Under the authoritative guidance, effective January 1, 2009, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The strike price of the warrants issued by the Company in connection with certain convertible note offerings made during 2009 and 2010 in the aggregate of 8,522,500 warrants, exercisable at $.30 per share, contain exercise prices that may fluctuate based on the occurrence of future offerings or events. As a result, theses warrants are not considered indexed to the Company's own stock. The Company characterized the fair value of these warrants as derivative liabilities upon issuance. The FASB's guidance requires the fair value of these liabilities be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

The derivative liabilities were valued using a probability weighted average series of Black-Scholes-Merton models as a valuation technique with the following assumptions:

		Fair Value of Warrants		
	No. of Warrants	December 31, 2009	2010 Issuance	September 30, 2010
Risk-free interest rate		1.18%	1.44%	0.42%
Expected volatility		142% - 147%	137%	135%-137%
Expected life (in years)		2.75 – 3	3	2.00 – 2.50
Expected dividend yield		0%	0%	0%
Fair Value:				
2009 Summer Warrants	1,870,000	$ 906,015	-	$ 609,620
2009 Wellfleet Warrants	300,000	145,350	-	97,800
2009 Fall Warrants	6,352,500	654,978	$ 2,372,837	2,070,915
Total Fair Value	8,522,500	$ 1,706,343	$ 2,372,837	$ 2,778,335

The risk-free interest rate is based on the yield available on U.S. Treasury securities. The Company estimates volatility based on the historical volatility of its common stock. The expected life warrants are based on the expiration date of the related warrants. The expected dividend yield was based on the fact that the Company has not paid dividends to common shareholders in the past and does not expect to pay dividends to common shareholders in the future.

The Company measured the fair value of the warrants issued during the nine months as of the date of issuance as $2,372,837. As of September 30, 2010, the Company re-measured the derivative liabilities and determined that the fair value to be $2,778,335. The Company recorded the change in fair value of the derivative liabilities of $1,300,845 for the nine months ending September 30, 2010.

9. Commitments and contingencies

Legal matters

We have concluded our litigation in previous matters involving the Company's prior Chairman and Chief Executive, Jeffrey Muller and all related matters and are of the current opinion that the Company no longer faces litigation liability in connection with those cases. However, we are continuing to assure the Company's obligations are fully in compliance with a previous injunction order entered by a Federal District Court over six years ago to timely file all of the Company's financial and related reports is continuing and current. The Company will shortly be petitioning the Federal District Court to dissolve the compliance injunction on the basis that for more than a six-year period, under the Company's new administrative and executive leadership, it has been fully compliance with the Company's SEC financial and reporting obligations.

On or about October 5, 2005, Bruce H. McKinnon ("McKinnon"), then president of the Company, and the Company entered into an Amended and Restated Employment Agreement, which provided for, among other things, a term expiring on December 31, 2007. On or about June 15, 2007, McKinnon and the Company entered into a Separation Agreement and General Mutual Release of Claims (the "Separation Agreement"). On or about August 31, 2007, McKinnon demanded payment of $238,696.15 pursuant to the terms of the Separation Agreement. Payment was not made by the Company, and McKinnon thus commenced an arbitration proceeding against the Company seeking payment of $238,696.15, plus payment for unpaid vacation pay, reimbursement of expenses, reimbursement of health insurance premiums, interest, attorneys' fees, labor code penalties and arbitration fees. The total amount demanded by McKinnon was $344,642.00, which was awarded to McKinnon on May 21, 2009, following completion of an arbitration hearing on March 12, 2009 (the "Arbitration Award") and has been reflected as an accrued liability in the accompanying September 30, 2010 and December 31, 2009 balance sheets.

On July 17, 2009, the Superior Court of the State of California, County of Los Angeles in the matter titled Bruce H. McKinnon v. Save the World Air, Inc. (Case No. BS 114835), confirmed the Arbitration Award and entered judgment thereon in favor of McKinnon in the amount of $344,642.00, plus attorneys' fees in the amount of $1,750.00 and costs of $40.00 (the "Judgment"). Since entry of the Judgment, McKinnon has engaged in collection efforts, resulting, to date, in seizure of a Company bank account containing approximately $8,000. McKinnon has also filed a Form UCC-1 Financing Statement against the assets of the Company.

On April 7, 2010, McKinnon and the Company entered into an Agreement Re: Collection on Judgment (the "Settlement Agreement). (See "Item 5"). Other Information"). wherein McKinnon, among other things, agreed to cease further collection efforts on the Judgment, and the Company, among other things, agreed to satisfy the Judgment for, and McKinnon agreed to accept as full and final satisfaction of the Judgment, subject to certain payment waivers described below, a total amount of $360,000, plus interest of ten percent (10%) per annum from March 15, 2010, on the unpaid balance until paid (the "Settlement Amount"), payable as follows: $30,000 on April 7, 2010; $85,000 on or before April 15, 2010; and, $15,000 per month commencing on June 1, 2010, until paid.

As noted, the Settlement Agreement provides that McKinnon shall cease all enforcement and collection efforts in connection with the Judgment, and further provides that if the Company defaults in any payment due McKinnon, McKinnon will be entitled to reinitiate his collection efforts to enforce and execute upon the Judgment in the full amount thereof plus additional amounts due under the Settlement Agreement, less a credit for the total amount of payments made by the Company pursuant to the Settlement Agreement, plus liquidated damages in the amount of $35,000, plus attorneys' fees and interest. McKinnon has agreed that within fifteen (15) days following payment in full of the Settlement Amount, McKinnon will execute and provide the Company with a full satisfaction of Judgment, and further will terminate his UCC-1 filing against the assets of the Company.

The Settlement Agreement also provides that if the Company makes all payments thereunder, on a timely basis, McKinnon will waive final payments due him in the amount of $35,000. To date, all payments have been made on time.

There is no other litigation of any significance with the exception of the matters that have arisen under, and are being handled in, the normal course of business.

10. Subsequent events

Temple University

As reported above under the Section labeled Temple University License Agreements, the Company has been in default since November 10, 2008 relating to its payment obligations to Temple University ("Temple") for its three (3) License Agreements. As of September 30, 2010, the amounts due Temple were $625,000 in principal and $234,661 in penalties for a total amount of $859,661. Unless the default is cured, the Company's License Agreements with Temple will terminate and its rights thereunder will revert to Temple.

On September 9, 2010, Temple notified the Company by letter that it will consider negotiating with the Company on one or more new license agreements (to replace the current three (3) License Agreements), subject to the following conditions:

1. Payment by the Company of not less than $50,000 within five (5) business days upon execution of the September 9, 2010 letter, and not less than $50,000 on the first business day of each calendar month thereafter. The Company has made the three foregoing payments totaling $150,000.
2. Payment by the Company to Temple, within ten (10) business days of invoices, of all outstanding patent expenses related to the technology developed under the License Agreements, whether incurred before or after June 30, 2010, in the amount of $8,700. The Company has paid these invoices in full.

If, in the sole discretion of Temple, the Company has made substantial and material progress in satisfying the outstanding payment obligations set forth above, as of November 15, 2010, Temple and the Company may begin negotiation in good faith on one or more exclusive license agreements (to replace the current three (3) License Agreements) for the technology underlying the current three (3) License Agreements. Execution of any such new license(s) shall be entirely subject to and contingent upon (a) the Company paying Temple the entire outstanding balance of the amount owed prior to January 3, 2011, and (b) the negotiation of mutually-agreeable terms and conditions for any new license agreement(s).

If the Company fails to adhere strictly to any conditions set forth above, any and all rights of the Company under the current three (3) License Agreements shall immediately terminate, without notice or further action by Temple or the Company. As of November 5, 2010, all payment obligations by the Company to Temple under the above-mentioned September 9, 2010, letter have been met which were comprised of $150,000 past due principal payments on the License Agreements and $8,700 of current patent expenses. Prior to the foregoing, the Company had paid Temple an additional $50,000 on August 13, 2010. With the payments identified in this paragraph, the Company has reduced its principal obligation to Temple by approximately one-third.

As of November 5, 2010 the Company owes Temple $550,000 in principal and $240,911 in penalties for a total of $790,911. A loss of the Company's License Agreements with Temple will have a material adverse affect on the Company's financial condition and prospects. The Company can provide no assurances that it will be able to satisfy its payment obligations to Temple or that Temple and the Company will be able to reach a new mutually satisfactory license(s) agreement for the technology underlying the current three (3) License Agreements.

Stock Issuance

From October 1, 2010 through November 11, 2010, we issued 911,944 additional shares of our common stock.

We issued 884,167 shares of common stock in exchange for the conversion of $221,512 Convertible Notes.

We issued 27,777 shares of common stock in exchange for $7,500 exercise of options.

2010 Fall #2 Offering. On October 4, 2010, the Company began conducting a private offering (the"Fall#2 2010 Offering") consisting of up to $3,600,000 aggregate face amount of its convertible notes (the Fall#2 2010 Notes). As of November 4, 2010, a total of $416,860 Fall#2 2010 Notes were sold to eleven accredited investors for an aggregate purchase price of $378,964. While the stated interest rate on the Fall#2 2010 Notes is 0%, the actual interest rate on the Fall#2 2010 Notes is 10% per annum. The Fall 2010 Notes mature on the first anniversary of the closing of this offering which will be on or before November 30, 2010 and will be convertible, at the option of the noteholders into 1,667,442 shares of the Company's common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall#2 2010 Offering will receive, for no additional consideration, a warrant (the "Fall#2 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall#2 2010 Notes are convertible (the "Warrant Shares"). Each Fall#2 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 1,667,442 Warrant Shares are initially issuable on exercise of the Fall#2 2010 Warrants.

As of November 11, 2010, the outstanding balance of the Fall#2 2010 Notes was $416,860.

Colfax Agreement

On November 5, 2010, the Company engaged Colfax Corporation (NYSE:CFX) and paid a fixed amount of $35,000 for the engineering, design and fabrication of a prototype unit of the Company's Applied Oil Technology (AOT™). Colfax Corporation serves customers around the world with fluid-handling solutions that address business challenges in the harshest environments. Colfax designs, engineers, manufactures, distributes and supports pumps and systems for key markets worldwide such as: Commercial Marine, Defense, General Industrial, Lubrication, Oil & Gas, and Power Generation. The prototype is being constructed for testing purposes with the US Department of Energy at the Rocky Mountain Oilfield Testing Center on the US Naval Petroleum Reserve No. 3 (NPR-3) in Wyoming. The prototype is the next step in the Company's technology translation from laboratory to field application, and marks a major milestone in the development process.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements include predictions regarding our future:

- revenues and profits;
- customers;
- research and development expenses and efforts;
- scientific and other third-party test results;
- sales and marketing expenses and efforts;
- liquidity and sufficiency of existing cash;
- technology and products;
- the outcome of pending or threatened litigation; and
- the effect of recent accounting pronouncements on our financial condition and results of operations

You can identify these and other forward-looking statements by the use of words such as "may," "will," "expects," "anticipates," "believes," "estimates," "continues," or the negative of such terms, or other comparable terminology.

Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009. All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

Overview

The following discussion and analysis of our condensed consolidated financial condition and condensed consolidated results of operations should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q and the condensed consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

We are a green technology company that leverages a suite of patented, patent-pending and licensed intellectual properties related to the treatment of fuels. Technologies patented by, or licensed to, us utilize either magnetic or uniform electrical fields to alter physical characteristics of fuels and are designed to create a cleaner combustion. Cleaner combustion has been shown to improve performance, enhance fuel economy and/or reduce harmful emissions in laboratory testing. See "Recent Developments" and "Sales and Marketing" below.

STWA's technology suite is based on the reduction of viscosity of petrochemical fluids. Particulate Matter Aggregation (PMA) is the scientific cornerstone of our technology, and is the basis for the Company's AOT™ and ELEKTRA™ product suites. We differentiate AOT™ and ELEKTRA™ products based on their differing attributes and marketing focus. AOT™ products are primarily designed to reduce operation costs for oil pipelines, and ELEKTRA™ products are primarily designed to improve fuel economy and reduce emissions from diesel-powered internal combustion engines. Our AOT™ products are intended to reduce the viscosity of crude oil, thereby making it less restrictive to pipeline transport. Our AOT™ products will be marketed primarily to pipeline operators as well as to pilot and government mandated delivery programs. Our ELEKTRA™ products are intended to increase fuel efficiency and reduce emissions. ELEKTRA™ will be marketed primarily to specialty consumer accessories market for many types of diesel-fueled vehicles, including but not limited to trucks, trains, maritime, military and aviation.

The Company has also entered into a research and development agreement (R&D Agreement) with Temple University to conduct further research on the ELEKTRA technology. Under the R&D Agreement Temple University will conduct a 24-month research project towards expanding the scope of, and developing products utilizing, the technologies covered under the License Agreements (defined below), including design and manufacture of prototypes utilizing electric fields to improve diesel, gasoline and kerosene fuel injection in engines using such fuels and a device utilizing a magnetic field to reduce crude oil viscosity for crude oil (paraffin and mixed base) and edible oil flow in pipelines. If the research project yields results within the scope of the technologies licensed pursuant to the License Agreements, those results will be deemed included as rights licensed to the Company pursuant to the License Agreements. If the research project yields results outside of the scope of the technologies covered by the License Agreements, the Company has a six-month right of first negotiation to enter into a new worldwide, exclusive license agreement with Temple University for the intellectual property covered by those results. Pursuant to the R&D Agreement, the Company has make payments to Temple University in the aggregate amount of $500,000. At September 30, 2010 the Company has completed payment in full of $500,000 under the R&D Agreement.

The Company has entered into three License Agreements with Temple University covering Temple University's current patent applications concerning certain electric field effects on gasoline, kerosene and diesel fuel particle size distribution, and concerning electric field effects on crude oil and edible oil viscosity. Initially, the License Agreements are exclusive and the territory licensed to the Company is worldwide. Pursuant to the License Agreements, the Company will pay to Temple University license fees in the aggregate amount of $300,000. A payment of $50,000 was due on November 1, 2006; a payment of $100,000 was due on March 2, 2007; a payment of $75, 000 was due on February 2, 2008 and the final payment is due on February 2, 2009. Annual maintenance fees of $25,000 for the first license were due on November 1, 2007, November 1, 2008. and November 1, 2009. Annual maintenance payments of $150,000 for two of the licenses were due January 1, 2008 and January 1, 2009. In addition, each License Agreement separately provides that the Company will pay royalties to Temple University on net sales of products incorporating the technology licensed under that License Agreement in an amount equal to 7% of the first $20 million of net sales, 6% of the next $20 million of net sales and 5% of net sales in excess of $40 million. Sales under the three License Agreements are not aggregated for purposes of calculating the royalties payable to Temple University. In addition, the Company has agreed to bear all costs of obtaining and maintaining patents in any jurisdiction where the Company directs Temple University to pursue a patent for either of the licensed technologies. Should the Company not wish to pursue a patent in a particular jurisdiction, that jurisdiction would not be included in the territory licensed to the Company.

On November 10, 2008, the Company received written notice from Temple University of a material breach relating to required payments under the License Agreements. The notice provides the Company with 60 days' notice to cure the material breach. The Company's failure to cure could result in a termination of the License Agreements. If the termination occurs, the Company estimates this would have a material adverse impact on the Company's financial condition and operations. Under the License Agreements the Company is subject to a penalty of 1% per month of the amounts due and unpaid under the License Agreements.

As of September 30, 2010, the Company is in default on the three License Agreements in the total amount of $859,661 which includes $234,661 of penalty interest and the Company has accrued this in the accompanying financial statements. (See "Item 5-Other Information")

We operate in a highly competitive industry. Many of our activities may be subject to governmental regulation. We have taken aggressive steps to protect our intellectual property.

There are significant risks associated with our business, our company and our stock.

We are a development stage company that generated its first initial revenues in the fourth quarter of 2006. Our expenses to date have been funded primarily through the sale of stock and convertible debt, as well as proceeds from the exercise of stock purchase warrants. We raised capital in 2009 and the first nine months of 2010 and will need to raise substantial additional capital in the balance of 2010, and possibly beyond, to fund our sales and marketing efforts, continuing research and development, and certain other expenses, until our revenue base grows sufficiently.

Our company was incorporated on February 18, 1998, as a Nevada corporation, under the name Mandalay Capital Corporation. We changed our name to Save the World Air, Inc. on February 11, 1999, following the acquisition of marketing and manufacturing rights of the ZEFS technologies. Our mailing address is 735 State Street, Suite 500, Santa Barbara, California 93101. Our research and development facility is located at 235 Tennant Avenue, Morgan Hill, California 95037. Our telephone number is (805) 845-3561. Our corporate website is www.stwa.com. Information contained on the website is not deemed part of this Annual Report.

Our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "ZERO.OB".

Results of Operations

We did not generate any revenue for the nine-month period ended September 30, 2010 and 2009.

Operating expenses were $389,519 for the three-month period ended September 30, 2010, compared to $488,281for the three-month period ended September 30, 2009, a decrease $98,762. This decrease is attributable to decreases in non-cash expenses of $85,601 and cash expenses of $13,161. Specifically, the decrease in non-cash expense is attributable to a decrease in stock and warrants given to consultants of $92,954, increase valuation of options given to employees as compensation of $6,976 and depreciation of $377. Specifically, the decrease in cash expense is attributable to decreases in consulting and professional fees of $47,911 and corporate expenses of $6,585, offset by increases in salaries and benefits of $27,706, office expenses of $13,350 and travel expenses of $279.

Operating expenses were $3,011,488 for the nine-month period ended September 30, 2010, compared to $1,922,903 for the nine-month period ended September 30, 2009, an increase $1,088,585. This increase is attributable to increases in non-cash expenses of $840,238 and cash expenses of $248,347. Specifically, the increase in non-cash expense is attributable to increases in stock and warrants given to consultants of $702,137, stocks given to employees of $46,761, valuation of options given to officers as compensation of $90,452 and depreciation of $888. Specifically, the increase in cash expense is attributable to increases in consulting and professional fees $139,567, salaries and benefits of $82,429, office expenses of $55,577, travel expenses $18,623, offset by a decrease in corporate expenses of $47,849.

Research and development expenses were $140,486 for the three-month period ended September 30, 2010, compared to $12,517 for the three-month period ended September 30, 2009, an increase of $127,969. This increase is mainly attributable to increases in product testing, research and supplies of $80,705, travel expense of $30,000 and contract fees of $17,264.

Research and development expenses were $344,581 for the nine-month period ended September 30, 2010, compared to $274,577 for the nine-month period ended September 30, 2009, an increase of $70,004. This increase is mainly attributable to increases in and product testing, research and supplies of $47,141 and travel expenses of $29,586 offset by a decrease in contract fees of $6,723.

Other expense were $431,331 income for the three-month period ended September 30, 2010, compared to $250,616 expense for the three-month period ended September 30, 2009, an increase of $180,715. This increase is attributable to an increase in interest expense of $210,431, offset by a decrease in change in fair value of derivative liabilities of $29,716.

Other expense were $3,226,579 for the nine-month period ended September 30, 2010, compared to $1,084,896 for the nine-month period ended September 30, 2009, an increase of $2,141,683. This increase is attributable to an increase in interest expense of $2,150,172, cost of private placement of $1,129,212 and cost to induce conversion of notes of $168,340, offset by a decrease in fair value of derivative liabilities of $1,300,845 and an increase in other income of $5,196.

We had a net loss of $961,336, or $0.01 per share, for the three-month period ended September 30, 2010, compared to a net loss of $751,414, or $0.01 per share, for the three-month period ended September 30, 2009. We had a net loss of $6,583,448, or $0.08 per share, for the nine-month period ended September 30, 2010, compared to a net loss of $3,283,176 or $0.05 per share, for the nine-month period ended September 30, 2009. We expect to incur additional net loss in the fiscal year ending December 31, 2010 primarily attributable to continued operating and marketing-related expenditures without the benefit of any significant revenue for the remainder of the year.

Liquidity and Capital Resources

Since its inception, the Company has been primarily engaged in organizational and pre-operating activities. The Company has generated insignificant revenues and has incurred accumulated losses of $55,521,462 from February 18, 1998 (Inception) through September 30, 2010. As reflected in the accompanying condensed consolidated financial statements, the Company had a net loss of $6,583,448 and a negative cash flow from operations of $2,391,651 for the nine months ended September 30, 2010, and had a working capital deficiency of $5,934,317 and a stockholders' deficiency of $5,837,036 at September 30, 2010. The Company is currently unable to meet its cash obligations and is in default of certain of its convertible note agreements and its obligations under its license agreements with Temple University. As a result, the Company's independent registered public accounting firm, in their report on the Company's 2009 consolidated financial statements, raised substantial doubt about the Company's ability to continue as a going concern.

Our operations to date have been funded through issuances of our common stock and convertible notes whereby we raised an aggregate $21,180,193 from February 18, 1998 (inception) through September 30, 2010. Based on our current operating plan, we believe that we do not have sufficient cash and cash equivalents to implement our operating plan. We will need to obtain additional financing in addition to the funds already raised through the sale of equity securities to fund our cash needs and continue our operations. Additional financing, whether through public or private equity or debt financing, arrangements with stockholders or other sources to fund operations, may not be available, or if available, may be on terms unacceptable to us. Our ability to maintain sufficient liquidity is dependent on our ability to raise additional capital. If we issue additional equity securities to raise funds, the ownership percentage of our existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of our common stock. Debt incurred by us would be senior to equity in the ability of debt holders to make claims on our assets. The terms of any debt issued could impose restrictions on our operations. If adequate funds are not available to satisfy either medium or long-term capital requirements, our operations and liquidity could be materially adversely affected and we could be forced to cut back our operations.

Details of Recent Financing Transactions

2009 Winter Offering I. From January 13, 2009 to January 26, 2009, we conducted and concluded a private offering (the "Winter 2009 Offering I") of up to $250,000 aggregate face amount of our convertible notes (the "Winter 2009 Notes") with 8 accredited investors. A total of $250,000 aggregate face amount of the Winter 2009 Notes were sold for an aggregate purchase price of $250,000. The Winter 2009 Notes bear interest at 10% per annum, payable at maturity. The Winter 2009 Notes mature three months from their date of issuance and notes in the amount of $175,000 are in default at September 30, 2010. The Winter 2009 Notes are convertible, at the option of the noteholder, into shares our of common stock (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of the our common stock for the five trading days preceding the closing dates of the Winter 2009 Offering (the "Conversion Price"). Up to 694,444 Conversion Shares are initially issuable at a Conversion Price of $0.36 per share.

Each of the investors in the Winter 2009 Offering received, for no additional consideration, a warrant (the "Winter 2009 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 50% of the number of shares of common stock into which the Winter 2009 Notes are convertible (the "Warrant Shares"). Each Winter 2009 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 347,722 Warrant Shares are initially issuable on exercise of the Winter 2009 Warrants.

The aggregate value of the Winter 2009 Offering Warrants issued in connection with the January 26, 2009 closing were valued at $66,178 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.85%; dividend yield of 0%; volatility factors of the expected market price of common stock of 151.42%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature of $183,822. The value of the Winter 2009 Offering Warrants and the beneficial conversion feature are considered as debt discount and were amortized over the life of the notes.

As of September 30, 2010 investors have converted $200,000 of the Convertible Notes plus $39,761 of penalty and interest into 780,307 shares of the our common stock. In addition, we paid $50,000 plus penalty and interest as a redemption of one of the defaulted convertible notes. There is no outstanding balance at September 30, 2010.

2009 Winter Offering II. From February 4, 2009 to March 12, 2009, we conducted and concluded a private offering (the "Winter 2009 Offering II") of up to $250,000 aggregate face amount of our convertible notes (the "Winter 2009 #2 Notes") with 17 accredited investors. A total of $247,302 aggregate face amount of the Winter 2009 #2 Notes were sold for an aggregate purchase price of $224,820. While the stated interest rate on the Winter 2009#2 Notes is 0%, the implied interest rate on the Winter 2009 #2 Notes is 10% per annum. The Winter 2009 #2 Notes mature on the first anniversary of their date of issuance and a note in the amount of $55,000 is in default at September 30, 2010. The Winter 2009 #2 Notes are convertible, at the option of the noteholder, into shares of our common stock (the "Conversion Shares") at an initial conversion price equal to the average of the closing bid price of our common stock for the five trading days preceding the closing dates of the Winter 2009 #2 Offering (the "Conversion Price"). Up to 772,818 Conversion Shares are initially issuable at a Conversion Price of $0.32 per share.

Each of the investors in the Winter 2009 #2 Offering received, for no additional consideration, a warrant (the "Winter 2009 #2 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 50% of the number of shares of common stock into which the Winter 2009 #2 Notes are convertible (the "Warrant Shares"). Each Winter 2009 #2 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 386,409 Warrant Shares are initially issuable on exercise of the Winter 2009 #2Warrants.

We received $224,820 in net proceeds in the Winter 2009 #2 Offering which was used for general corporate purposes and working capital. The aggregate value of the Winter 2009 #2 Offering Warrants issued in connection with the January 26, 2009 closing were valued at $62,028 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 1.03%; dividend yield of 0%; volatility factors of the expected market price of common stock of 156%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature of $161,791. The value of the Winter 2009 #2 Offering Warrants, the beneficial conversion feature, and the transaction fees of $22,482 are considered as debt discount and were amortized over the life of the Note.

As of September 30, 2010, investors have converted $247,302 of the Convertible Notes plus $6,876 in penalty and interest into 794,306 shares of the Company's common stock. There is no outstanding balance at September 30, 2010.

2009 Spring Offering. From March 17, 2009 to April 30, 2009, we conducted and concluded a private offering (the "Spring 2009 Offering") of up to $300,000 aggregate face amount of its convertible notes (the "Spring 2009 Notes") with 11 accredited investors. A total of $181,500 aggregate face amount of the Spring 2009 Notes were sold for an aggregate purchase price of $165,000. The Spring 2009 Notes mature on the first anniversary of their date of issuance, are convertible, at the option of the noteholder, into up to 672,222 shares of common stock of the Company at a conversion price of $0.27 per share.

Each of the investors in the Spring 2009 Offering received, for no additional consideration, a warrant (the "Spring 2009 Warrants"), entitling the holder to purchase a number of shares our common stock equal to 50% of the number of shares of common stock into which the Spring 2009 Notes are convertible (the "Warrant Shares"). Each Spring 2009 Warrant is exercisable on a cash basis only at an initial price of $0.50 per share, and is exercisable for a period of two years. Up to 336,111 Warrant Shares are initially issuable on exercise of the Spring 2009 Warrants.

We received $165,000 in net proceeds in the Spring 2009 Offering which was used for general corporate purposes and working capital. The aggregate value of the Spring 2009 Offering Warrants issued in connection with the April 30, 2009 closing were valued at $39,994 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 0.94%; dividend yield of 0%; volatility factors of the expected market price of common stock of 156.39%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature of $96,827. The value of the Spring 2009 Offering Warrants, the beneficial conversion feature, and the transaction fees of $16,500 are considered as debt discount and were amortized over the life of the Note.

As of September 30, 2010, investors have converted $170,500 of the Convertible Notes plus penalty and interest of $6,690 into 656,257 shares of our common stock. As of September 30, 2010 there were two notes in default and the outstanding balance was $12,606 which includes $1,606 of penalty and interest.

2009 Summer Offering. From June 9, 2009 to September 28, 2009, we conducted and concluded a private offering (the "Summer 2009 Offering") of up to $500,000 aggregate face amount of our convertible notes (the "Summer 2009 Notes") with interest compounded quarterly at the annual rate of seven percent (7%) payable at maturity. A total of $467,500 Summer 2000 Notes were sold to 17 accredited investors. The Summer 2009 Notes mature on the second anniversary of the closing of this offering and will be convertible, at the option of the noteholder, into up to 1,870,000 shares of our common stock at a conversion price of $0.25 per share.

Each of the investors in the Summer 2009 Offering will receive, for no additional consideration, a warrant (the "Summer 2009 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Summer 2009 Notes are convertible (the "Warrant Shares"). Each Summer 2009 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of thirty six months. Up to 1,870,000 Warrant Shares are initially issuable on exercise of the Summer 2009 Warrants.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. We considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, we determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount. As a result, we determined that these warrants are not considered indexed to our own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

We determined that the fair value of the warrant liability at issuance on September 28, 2009 to be $668,525 based upon a weighted average Black-Sholes-Merton calculation. We recorded the full value of the derivative as a liability at issuance with an offset to valuation discount. As the fair value of the liability of $668,525 exceeded the note value of $467,500, the excess of the liability over the note amount of $201,025 was considered as a cost of the private placement and recorded as such in 2009. The fair value of the warrant liability as of September 30, 2010 was $609,620 (see Note 8).

As of September 30, 2010, investors have converted $467,500 of the Convertible Notes plus $5,002 of penalties and interest into 1,891,564 shares of our common stock. There was no outstanding balance at September 30, 2010.

2009 Wellfleet Offering. On November 20, 2009, we completed a private financing of $75,000 principal amount of 7% Convertible Promissory Notes (the "**Notes**") and 300,000 Common Stock Purchase Warrants exercisable at $.30 per share (the "**Warrants**"), pursuant to a Securities Purchase Agreement (the "**Purchase Agreement**") with 3 accredited investors (the "**Note Offering**"), through Sandgrain Securities, Inc., as placement agent.

The Notes are initially convertible into shares of our common stock at a price of $.25 per share and accrue interest at 7% per year with a default rate of 10%, payable quarterly in cash. Interest payments are payable in stock at the sole discretion of the Note holders, or, in the event that shares issuable thereon are registered under the Securities Act of 1933, as amended (the "**Act**"), or otherwise freely tradable pursuant to Rule 144, at our discretion as well. The Notes and any unpaid interest are due and fully payable on September 28, 2012. The conversion price of the Notes is adjustable for corporate events such as merger, reclassification or stock splits.

Pursuant to the terms of the Purchase Agreement, and among other terms, in the event we conduct any subsequent financings (each, a "**Follow On Offering**") of any kind other than an offering of securities substantially similar to the Notes and Warrants or certain other exempted issuances enumerated in the Notes, the Notes may, at the discretion of each holder thereof, be exchanged in whole or in part to the extent of outstanding principal and/or interest in such Note, into the securities offered in the Follow On Offering, by applying and exchanging the outstanding principal and interest of such Notes towards the purchase price of the securities offered in such Follow On Offering, at the same price and terms of the Follow On Offering.

We paid a placement agent fee to Sandgrain Securities, Inc. of (i) $6,000 in cash, (ii) 24,000 shares of Common Stock constituting 8% of the number of Conversion Shares initially issuable upon exercise of the Notes, and (iii) 24,000 warrants, substantially similar to the Warrants sold to investors (the "Placement Agent Warrants"), in connection with the Note Offering, in addition to legal fees.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. We considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, we determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount. As a result, we determined that these warrants are not considered indexed to our own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

We determined that the fair value of the warrant liability at issuance on November 20, 2009 to be $75,000 based upon a weighted average Black-Sholes-Merton calculation. We recorded the full value of the derivative as a liability at issuance with an offset to valuation discount. The fair value of the warrant liability as of September 30, 2010 was $97,800 (see Note 8).

As of September 30, 2010 investors have converted $50,000 of the Convertible Notes plus $1,750 of accrued interest into 207,000 shares of our common stock. The outstanding balance at September 30, 2010 was $26,543 which includes $1,543 of accrued interest.

2009 Fall Offering. From October 2, 2009 to January 15, 2010, we conducted and completed a private offering (the "Fall 2009 Offering") consisting of an aggregate of $1,588,125 of 7% Convertible Promissory Notes (the "Notes") with interest compounded quarterly at the annual rate of 7% payable at maturity, and warrants to purchase an aggregate of 6,352,500 shares of our common stock (the "Fall 2009 Warrants"). We received $1,186,875 net proceeds, of which $344,500 was received as of December 31, 2009. The Fall 2009 Notes mature on the second anniversary of the closing of this offering and will be convertible, at the option of the noteholder, into up to 6,352,500 shares of our common stock at a conversion price of $0.25 per share. The Fall 2009 Warrants are for a term of three years at an exercise price of $0.30 per share.

Each of the warrant agreements included an anti-dilution provision that allowed for the automatic reset of the exercise price upon any future sale of common stock or warrants at or below the current exercise price. We considered the current Financial Accounting Standards Board guidance of "Determining Whether an Instrument Indexed to an Entity's Own Stock" which indicates that any adjustment to the fixed amount (either conversion price or number of shares) of the instrument regardless of the probability or whether or not within the issuers' control, means the instrument is not indexed to the issuers own stock. Accordingly, we determined that as the strike price of these warrants contain exercise prices that may fluctuate based on the occurrence of future offerings or events, and as such is not a fixed amount. As a result, we determined that these warrants are not considered indexed to our own stock and characterized the fair value of these warrants as derivative liabilities upon issuance.

We determined that the fair value of the warrant liability at issuances to be $3,027,815 based upon a weighted average Black-Scholes-Merton calculation (See Note 8), of which, $654,978 was recorded on December 31, 2009 and $2,372,837 was recorded on January 15, 2010. We recorded the full value of the derivative of $2,372,837 as a liability at issuance with an offset to valuation discount. As the fair value of the liability of $2,372,837 exceeded the note value of $1,243,625, the excess of the liability over the note amount of $1,129,212 was considered to be cost of the private placement and was recorded during the period. The fair value of the warrant liability as of September 30, 2010 was $2,070,915 (see Note 8).

As of September 30, 2010, investors have converted $1,515,626 of the Convertible Notes plus interest of $7,534 into 6,092,635 shares of our common stock. The outstanding balance at September 30, 2010 is $76,148 which includes $3,648 in accrued interest.

2010 Winter Offering. From February 15, 2010 to March 31, 2010, we conducted a private offering (the "Winter 2010 Offering") consisting of an aggregate of $885,863 face amount of its Convertible Promissory Notes (the "Winter 2010 Notes") have been sold for an aggregate purchase price of $805,330. While the stated interest rate on the Winter 2010 Notes is 0%, the implied interest rate on the Winter 2010 Notes is 10% per annum. The Winter 2010 Notes mature on the first anniversary of their date of issuance. The Winter 2010 Notes are convertible, at the option of the noteholder, into 2,214,657 shares of our common stock (the "Conversion Shares") at an initial conversion price of $0.40 per share (the "Conversion Price").

Each of the investors in the Winter 2010 Offering received, for no additional consideration, a warrant (the "Winter 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Winter 2010 Notes are convertible (the "Warrant Shares"). Each Winter 2010 Warrant is exercisable on a cash basis only at an initial price of $0.40 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 2,214,657 Warrant Shares are initially issuable to date on exercise of the Winter 2010 Warrants.

We received $805,330 in net proceeds in the Winter 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Winter 2010 Offering Warrants issued in connection with the September 30, 2010 closing were valued at $476,268 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of 1.02; dividend yield of 0%; volatility factors of the expected market price of common stock of 135%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature of $329,062. As of September 30, 2010, the aggregate value of the Winter 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $80,533 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of September 30, 2010, investors have converted $885,863 of the Convertible Notes into 2,214,657 shares of our common stock. There was no outstanding balance at September 30, 2010.

2010 Spring Offering. From April 15, 2010 to April 30, 2010, we conducted a private offering (the "Spring 2010 Offering") consisting of an aggregate of $143,000 face amount of its Convertible Promissory Notes (the "Spring 2010 Notes") have been sold for an aggregate purchase price of $130,000. While the stated interest rate on the Spring 2010 Notes is 0%, the actual interest rate on the Spring 2010 Notes is 10% per annum. The Spring 2010 Notes mature on the first anniversary of their date of issuance. The Spring 2010 Notes are convertible, at the option of the noteholder, into 357,500 shares of our common stock (the "Conversion Shares") at an initial conversion price of $0.40 per share (the "Conversion Price").

Each of the investors in the Spring 2010 Offering received, for no additional consideration, a warrant (the "Spring 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Spring 2010 Notes are convertible (the "Warrant Shares"). Each Spring 2010 Warrant is exercisable on a cash basis only at an initial price of $0.40 per share, and is exercisable immediately upon issuance and for a period of two (2) years from the date of issuance. Up to 357,500 Warrant Shares are initially issuable to date on exercise of the Spring 2010 Warrants.

We received $130,000 in net proceeds in the Spring 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Spring 2010 Offering Warrants issued in connection with the September 30, 2010 closing were valued at $62,730 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .41; dividend yield of 0%; volatility factors of the expected market price of common stock of 110%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature of $67,270. As of September 30, 2010, the aggregate value of the Spring 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $13,000 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of September 30, 2010, investors have converted $143,000 of the Convertible Notes into 357,000 shares of our common stock. There was no outstanding balance at September 30, 2010.

2010 Summer Offering. From June 14, 2010 to July 31, 2010, we conducted and concluded a private offering (the "Summer 2010 Offering") consisting of up to $500,000 aggregate face amount of out convertible notes (the " Summer 1010 Notes). A total of $392,150 Summer 2010 Notes were sold to twenty six accredited investors for an aggregate purchase price of $356,500. While the stated interest rate on the Summer 2010 Notes is 0%, the actual interest rate on the Summer 2010 Notes is 10% per annum. The Summer 2010 Notes mature on the first anniversary of of the closing of this offering and will be convertible, at the option of the noteholder, into up to 1,568,600 shares of our common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Summer 2010 Offering will receive, for no additional consideration, a warrant (the "Summer 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Summer 2010 Notes are convertible (the "Warrant Shares"). Each Summer 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 1,568,600 Warrant Shares are initially issuable on exercise of the Summer 2010 Warrants.

We received $356,500 in net proceeds in the Summer 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Summer 2010 Offering Warrants issued in connection with the July 31, 2010 closing were valued at $209,512 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .55; dividend yield of 0%; volatility factors of the expected market price of common stock of 132%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature of $146,988. As of September 30, 2010, the aggregate value of the Summer 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $35,650 are considered as debt discount and were fully amortized in conjunction with the conversion of the notes.

As of September 30, 2010, investors have converted $392,150 of the Convertible Notes into 1,568,600 shares of the Company's common stock. There was no outstanding balance at September 30, 2010.

2010 Fall Offering. From August 10, 2010 to September 30, 2010, we conducted and concluded a private offering (the "Fall 2010 Offering") consisting of up to $600,000 aggregate face amount of out convertible notes (the "Fall 1010 Notes). A total of $174,482 Fall 2010 Notes were sold to ten accredited investors for an aggregate purchase price of $158,620. While the stated interest rate on the Fall 2010 Notes is 0%, the actual interest rate on the Fall 2010 Notes is 10% per annum. The Fall 2010 Notes mature on the first anniversary of of the closing of this offering and will be convertible, at the option of the noteholder, into up to 697,928 shares of our common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall 2010 Offering will receive, for no additional consideration, a warrant (the "Fall 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall 2010 Notes are convertible (the "Warrant Shares"). Each Fall 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 697,928 Warrant Shares are initially issuable on exercise of the Fall 2010 Warrants.

We received $158,620 in net proceeds in the Fall 2010 Offering which was used for general corporate purposes and working capital. The aggregate value of the Fall 2010 Offering Warrants issued in connection with the September 30, 2010 closing were valued at $88,113 using the Black-Scholes-Merton option valuation model with the following assumptions; risk-free interest rate of .42; dividend yield of 0%; volatility factors of the expected market price of common stock of 135%; and an expected life of two years (statutory term) and vest immediately upon issuance. We also determined that the notes contained a beneficial conversion feature of $70,507. As of September 30, 2010, the aggregate value of the Summer 2010 Offering Warrants, the beneficial conversion feature and the transaction fees of $15,862 are considered as debt discount and will be amortized over the life of the notes.

As of September 30, 2010, there were no conversions made and the outstanding balance was $174,620.

Critical Accounting Policies and Estimates

Our discussion and analysis of our condensed consolidated financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements and related disclosures requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an on-going basis, our estimates and judgments, including those related to the useful life of the assets. We base our estimates on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the condensed consolidated results that we report in our financial statements. The SEC considers an entity's most critical accounting policies to be those policies that are both most important to the portrayal of a company's financial condition and results of operations and those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain at the time of estimation.. For a more detailed discussion of the accounting policies of the Company, see Note 2 of Notes to the condensed consolidated financial statements.

We believe the following critical accounting policies, among others, require significant judgments and estimates used in the preparation of our condensed consolidated financial statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain significant estimates were made in connection with preparing our condensed consolidated financial statements as described in Note 1 to Notes to condensed consolidated financial statements. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue based upon meeting the four criteria pursuant to the authoritative guidance issued by the FASB:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services rendered;
- The seller’s price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

We contract with manufactures of fixed magnetic field products and sell them to various original equipment manufacturers in the motor vehicle and small utility motor markets. We negotiate an initial contract with the customer fixing the terms of the sale and then receives a letter of credit or full payment in advance of shipment. Upon shipment, we recognize the revenue associated with the sale of the products to the customer.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. Stock-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Options vest and expire according to terms established at the grant date.

Recent Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board (FASB) issued new accounting guidance in applying the milestone method of revenue recognition to research or development arrangements. Under this guidance management may recognize revenue contingent upon the achievement of a milestone in its entirety, in the period in which the milestone is achieved, only if the milestone meets all the criteria within the guidance to be considered substantive. This standard is effective on a prospective basis for research and development milestones achieved in fiscal years, beginning on or after June 15, 2010. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 will require the Company to apply this guidance retrospectively effective as of January 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. As the Company plans to implement this standard prospectively, the effect of this guidance will be limited to future transactions. The Company does not expect adoption of this standard to have a material impact on its financial position or results of operations as it has no material research and development arrangements which will be accounted for under the milestone method.

In January 2010, the FASB issued new accounting guidance which requires new disclosures regarding transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring presentation on a gross basis of information about purchases, sales, issuances and settlements in Level 3 fair value measurements. The guidance also clarifies existing disclosures regarding level of disaggregation, inputs and valuation techniques. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009. Disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. As this guidance requires only additional disclosure, there should be no impact on the consolidated financial statements of the Company upon adoption.

In October 2009, a new accounting consensus was issued for multiple-deliverable revenue arrangements. This consensus amends existing revenue recognition accounting standards. This consensus provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previously the existing accounting consensus required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. Under the existing accounting consensus, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is in the process of evaluating whether the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

In June 2009, the FASB issued authoritative guidance on consolidation of variable interest entities. The new guidance is intended to improve financial reporting by requiring additional disclosures about a company's involvement in variable interest entities. This new guidance is effective for fiscal years and interim periods beginning after November 15, 2009. The Company adopted this guidance effective January 3, 2010, and it had no impact on the consolidated financial statements of the Company

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (the "SEC") did not or are not believed by management to have a material impact on the Company's present or future consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") were ineffective as of September 30, 2010, due to the material weaknesses in our internal control over financial reporting described below.

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including our Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Internal control consists of procedures which are designed with the objective of providing reasonable assurance that our transactions are properly authorized, recorded and reported and our assets are safeguarded against unauthorized or improper use, to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

We identified certain matters that constitute material weakness (as defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in our internal control over financial reporting as discussed on Management's Annual Report on Internal Control Over Financial Reporting below.

In light of the material weaknesses in internal control over financial reporting described below, we performed additional analysis and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Despite material weaknesses in our internal control over financial reporting, we believe that the financial statements included in our Form 10-Q for the period ended September 30, 2010 fairly present, in all material respects, our financial condition, results of operations, changes in shareholder's equity and cash flows for the periods presented.

Management's Annual Report on Internal Control over Financial Reporting.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitation, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives.

Our Chief Executive Officer, Interim Chief Financial Officer and Controller conducted an assessment of the effectiveness of our internal control over financial reporting as of September 30, 2010 based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Based on that assessment, we have identified the following material weaknesses and have implemented the following remediation of material weaknesses in internal control over financial reporting:

Lack of segregation of duties

We have limited staff in our corporate offices and, as such, there is a lack of segregation of duties. In December 2006 our Controller retired and in January 2007 our Chief Financial Officer retired due to medical problems. We have subsequently hired an Interim Chief Financial Officer and a full-time Controller and our former Controller provides certain financial consulting services.

Lack of documented and reviewed system of internal control

We have an internal control weakness due to the lack of a documented and reviewed system of internal control. We have determined that to perform the processes and remediate this internal control deficiency, we will either need to engage an internal control consultant or reassign existing personnel. We have started to enhance some of our key internal control systems surrounding inventory purchasing and control, and to document those changes; however, this process is on-going and the implementation of policies and procedures may take several quarters.

As a result of the material weaknesses described above, management concluded that, as of September 30, 2010, we did not maintain effective internal control over financial reporting based on the criteria established in *Internal Control – Integrated Framework, issued by COSO*.

We have retained a consulting firm and are conducting an evaluation to design and implement adequate systems of accounting and financial statement disclosure controls. We expect to complete a review during 2010 to comply with the requirements of the SEC, which as required by SEC rules, will include an opinion from our auditors regarding management's report on internal control over financial reporting for our fiscal year ending 2010. We believe that the ultimate success of our plan to improve our internal control over financial reporting will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, and substantial additional training of those of our officers, personnel and others, including certain of our directors such as our Chairman of the Board and committee chairs, who are charged with implementing and/or carrying out our plan. It should also be noted that the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

In addition, our management with the participation of our Chief Executive Officer and Interim Chief Financial Officer have determined that no change in our internal control over financial reporting (as that term is defined in Rules 13(a)-15(f) and 15(d)-15(f) of the Securities Exchange Act of 1934) occurred during or subsequent to the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

We have concluded our litigation in previous matters involving the Company's prior Chairman and Chief Executive, Jeffrey Muller and all related matters and are of the current opinion that the Company no longer faces litigation liability in connection with those cases. However, we are continuing to assure the Company's obligations are fully in compliance with a previous injunction order entered by a Federal District Court over six years ago to timely file all of the Company's financial and related reports is continuing and current. The Company will shortly be petitioning the Federal District Court to dissolve the compliance injunction on the basis that for more than a six-year period, under the Company's new administrative and executive leadership, it has been fully compliance with the Company's SEC financial and reporting obligations.

On or about October 5, 2005, Bruce H. McKinnon ("McKinnon"), then president of the Company, and the Company entered into an Amended and Restated Employment Agreement, which provided for, among other things, a term expiring on December 31, 2007. On or about June 15, 2007, McKinnon and the Company entered into a Separation Agreement and General Mutual Release of Claims (the "Separation Agreement"). On or about August 31, 2007, McKinnon demanded payment of $238,696.15 pursuant to the terms of the Separation Agreement. Payment was not made by the Company, and McKinnon thus commenced an arbitration proceeding against the Company seeking payment of $238,696.15, plus payment for unpaid vacation pay, reimbursement of expenses, reimbursement of health insurance premiums, interest, attorneys' fees, labor code penalties and arbitration fees. The total amount demanded by McKinnon was $344,642.00, which was awarded to McKinnon on May 21, 2009, following completion of an arbitration hearing on March 12, 2009 (the "Arbitration Award") and has been reflected as an accrued liability in the accompanying December 31, 2009 balance sheet.

On July 17, 2009, the Superior Court of the State of California, County of Los Angeles in the matter titled Bruce H. McKinnon v. Save the World Air, Inc. (Case No. BS 114835), confirmed the Arbitration Award and entered judgment thereon in favor of McKinnon in the amount of $344,642.00, plus attorneys' fees in the amount of $1,750.00 and costs of $40.00 (the "Judgment"). Since entry of the Judgment, McKinnon has engaged in collection efforts, resulting, to date, in seizure of a Company bank account containing approximately $8,000.00. McKinnon has also filed a Form UCC-1 Financing Statement against the assets of the Company.

On April 7, 2010, McKinnon and the Company entered into an Agreement Re: Collection on Judgment (the "Settlement Agreement") (See "Item 5. Other Information"). wherein McKinnon, among other things, agreed to cease further collection efforts on the Judgment, and the Company, among other things, agreed to satisfy the Judgment for, and McKinnon agreed to accept as full and final satisfaction of the Judgment, subject to certain payment waivers described below, a total amount of $360,000, plus interest of ten percent (10%) per annum from March 15, 2010, on the unpaid balance until paid (the "Settlement Amount"), payable as follows: $30,000 on April 7, 2010; $85,000 on or before April 15, 2010; and, $15,000 per month commencing on June 1, 2010, until paid.

As noted, the Settlement Agreement provides that McKinnon shall cease all enforcement and collection efforts in connection with the Judgment, and further provides that if the Company defaults in any payment due McKinnon, McKinnon will be entitled to reinitiate his collection efforts to enforce and execute upon the Judgment in the full amount thereof plus additional amounts due under the Settlement Agreement, less a credit for the total amount of payments made by the Company pursuant to the Settlement Agreement, plus liquidated damages in the amount of $35,000, plus attorneys' fees and interest. McKinnon has agreed that within fifteen (15) days following payment in full of the Settlement Amount, McKinnon will execute and provide the Company with a full satisfaction of Judgment, and further will terminate his UCC-1 filing against the assets of the Company.

The Settlement Agreement also provides that if the Company makes all payments thereunder, on a timely basis, McKinnon will waive final payments due him in the amount of $35,000. To date, all payments have been made on time.

There is no other litigation of any significance with the exception of the matters that have arisen under, and are being handled in, the normal course of business.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in Form 10-K for the period ended December 31, 2009, we filed with the SEC on March 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

2009 Winter Offering I. From January 13, 2009 through January 26, 2009, we conducted a private offering (the "2009 Winter Offering I") and issued Convertible Notes in the aggregate face amount of $250,000. These Notes were sold for an aggregate purchase price of $250,000 net proceeds. The Notes are convertible into 699,444 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 347,722 shares of our common stock. (See "Details of Recent Financing Transactions").

2009 Winter Offering II. From February 4, 2009 through March 11, 2009, we conducted a private offering (the "2009 Winter Offering II") and issued Convertible Notes in the aggregate face amount of $247,302. These Notes were sold for an aggregate purchase price of $224,820 net proceeds. The Notes are convertible into 772,818 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 386,409 shares of our common stock. (See "Details of Recent Financing Transactions").

2009 Spring Offering. From March 17, 2009 through April 30, 2009, we conducted a private offering (the "2009 Spring Offering") and issued Convertible Notes in the aggregate face amount of $181,500. These Notes were sold for an aggregate purchase price of $165,000 net proceeds. The Notes are convertible into 672,222 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 336,111 shares of our common stock. (See "Details of Recent Financing Transactions").

2009 Summer Offering. From June 9, 2009 through September 28, 2009, we conducted a private offering (the "2009 Summer Offering") and issued Convertible Notes in the aggregate face amount of $467,500. These Notes were sold for an aggregate purchase price of $467,500 net proceeds. The Notes are convertible into 1,870,000 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 1,870,000 shares of our common stock. (See "Details of Recent Financing Transactions").

2009 Wellfleet Offering. Effective November 20, 2009, we concluded a private offering (the "2009 Wellfleet Offering") and issued Convertible Notes in the aggregate face amount of $75,000. These Notes were sold for an aggregate purchase price of $75,000 net proceeds. The Notes are convertible into 300,000 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 300,000 shares of our common stock. (See "Details of Recent Financing Transactions").

2009 Fall Offering. From October 2, through January 15, 2010, the Company conducted a private offering (the "2009 Fall Offering") consisting of an aggregate of $1,588,125 of Convertible Promissory Notes. The Notes were sold for $1,186,875 net proceeds, and the Company converted existing liabilities of $401,250 to these notes. The Notes are convertible into 6,352,500 shares of our common stock and in addition investors received warrants to purchase up to 6,352,500 shares of our common stock. (See "Details of Recent Financing Transactions").

2010 Winter Offering. From February 15, 2010 through June 30, 2010, we conducted a private offering (the "2010 Winter Offering") and issued Convertible Notes in the aggregate face amount of $885,863. These Notes were sold for an aggregate purchase price of $805,330 net proceeds. The Notes are convertible into 2,214,657 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 2,214,657 shares of our common stock. (See "Details of Recent Financing Transactions").

2010 Spring Offering. From April 15, 2010 through April 30, 2010, we conducted a private offering (the "2010 Spring Offering") and issued Convertible Notes in the aggregate face amount of $143,000. These Notes were sold for an aggregate purchase price of $130,000 net proceeds. The Notes are convertible into 357,000 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 357,000 shares of our common stock. (See "Details of Recent Financing Transactions").

2010 Summer Offering. From June 14, 2010 through July 31, 2010, we conducted a private offering (the "2010 Summer Offering") and issued Convertible Notes in the aggregate face amount of $392,150. These Notes were sold for an aggregate purchase price of $356,500 net proceeds. The Notes are convertible into 1,568,600 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 1,568,600 shares of our common stock. (See "Details of Recent Financing Transactions").

2010 Fall Offering. From August 10, 2010 through September 30, 2010, we conducted a private offering (the "2010 Fall Offering") and issued Convertible Notes in the aggregate face amount of $174,482. These Notes were sold for an aggregate purchase price of $158,620 net proceeds. The Notes are convertible into 697,928 shares of our common stock and in addition, investors received warrants entitling the holders to purchase up to 697,928 shares of our common stock. (See "Details of Recent Financing Transactions").

The sales of the securities described above were made in reliance on the exemptions from registration set forth in Section 4(2) of the Securities Act of 1933, as amended (the "Act"), or Regulations D or S promulgated thereunder.

Other Issuances.

During the nine months ended September 30, 2010, the Company issued 12,646,499 shares of common stock in exchange for conversion of $3,643,253 of Convertible Notes.

During the nine months ended September 30, 2010, the Company issued 224,751 shares of common stock valued at $119,118 to induce conversion of Convertible Notes. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 1,560,099 shares of common stock in exchange for consulting services in the amount of $713,637. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 170,000 shares as employee compensation valued at $91,700. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 12,121 shares of common stock in settlement of accounts payable of $4,121. The shares issued were valued at the trading price at the date of the agreement.

During the nine months ended September 30, 2010, the Company issued 167,778 shares of common stock upon exercise of options at $0.27 per share and valued at $45,300.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

We have evaluated subsequent events occurring between October 1, 2010 and November 11, 2010.

Temple University

As reported above under the Section labeled Temple University License Agreements, the Company has been in default since November 10, 2008 relating to its payment obligations to Temple University ("Temple") for its three (3) License Agreements. As of September 30, 2010, the amounts due Temple were $625,000 in principal and $234,661 in penalties for a total amount of $859,661. Unless the default is cured, the Company's License Agreements with Temple will terminate and its rights thereunder will revert to Temple.

On September 9, 2010, Temple notified the Company by letter that it will consider negotiating with the Company on one or more new license agreements (to replace the current three (3) License Agreements), subject to the following conditions:

1. Payment by the Company of not less than $50,000 within five (5) business days upon execution of the September 9, 2010 letter, and not less than $50,000 on the first business day of each calendar month thereafter. The Company has made the three foregoing payments totaling $150,000.
2. Payment by the Company to Temple, within ten (10) business days of invoices, of all outstanding patent expenses related to the technology developed under the License Agreements, whether incurred before or after June 30, 2010, in the amount of $8,700. The Company has paid these invoices in full.

If, in the sole discretion of Temple, the Company has made substantial and material progress in satisfying the outstanding payment obligations set forth above, as of November 15, 2010, Temple and the Company may begin negotiation in good faith on one or more exclusive license agreements (to replace the current three (3) License Agreements) for the technology underlying the current three (3) License Agreements. Execution of any such new license(s) shall be entirely subject to and contingent upon (a) the Company paying Temple the entire outstanding balance of the amount owed prior to January 3, 2011, and (b) the negotiation of mutually-agreeable terms and conditions for any new license agreement(s).

If the Company fails to adhere strictly to any conditions set forth above, any and all rights of the Company under the current three (3) License Agreements shall immediately terminate, without notice or further action by Temple or the Company. As of November 5, 2010, all payment obligations by the Company to Temple under the above-mentioned September 9, 2010, letter have been met which were comprised of $150,000 past due principal payments on the License Agreements and $8,700 of current patent expenses. Prior to the foregoing, the Company had paid Temple an additional $50,000 on August 13, 2010. With the payments identified in this paragraph, the Company has reduced its principal obligation to Temple by approximately one-third.

As of November 5, 2010 the Company owes Temple $550,000 in principal and $240,911 in penalties for a total of $790,911. A loss of the Company's License Agreements with Temple will have a material adverse affect on the Company's financial condition and prospects. The Company can provide no assurances that it will be able to satisfy its payment obligations to Temple or that Temple and the Company will be able to reach a new mutually satisfactory license(s) agreement for the technology underlying the current three (3) License Agreements.

Stock Isssuance

From October 1, 2010 through November 10, 2011, we issued 911,944 additional shares of our common stock.

We issued 884,167 shares of common stock in exchange for the conversion of $221,512 Convertible Notes.

We issued 27,777 shares of common stock in exchange for $7,500 exercise of options.

2010 Fall #2 Offering. On October 4, 2010, the Company began conducting a private offering (the"Fall#2 2010 Offering") consisting of up to $3,600,000 aggregate face amount of its convertible notes (the Fall#2 2010 Notes). As of November 4, 2010, a total of $416,860 Fall#2 2010 Notes were sold to eleven accredited investors for an aggregate purchase price of $378,964. While the stated interest rate on the Fall#2 2010 Notes is 0%, the actual interest rate on the Fall#2 2010 Notes is 10% per annum. The Fall 2010 Notes mature on the first anniversary of the closing of this offering which will be on or before November 30, 2010 and will be convertible, at the option of the noteholders into 1,667,442 shares of the Company's common stock at a conversion price of $0.25 per share (the "Conversion Price").

Each of the investors in the Fall#2 2010 Offering will receive, for no additional consideration, a warrant (the "Fall#2 2010 Warrants"), entitling the holder to purchase a number of shares of our common stock equal to 100% of the number of shares of common stock into which the Fall#2 2010 Notes are convertible (the "Warrant Shares"). Each Fall#2 2010 Warrant is exercisable on a cash basis only at an initial price of $0.30 per share, and is exercisable for a period of twenty four months. Up to 1,667,442 Warrant Shares are initially issuable on exercise of the Fall#2 2010 Warrants.

As of November 11, 2010, the outstanding balance of the Fall#2 2010 Notes was $416,860.

Colfax Agreement

On November 5, 2010, the Company engaged Colfax Corporation (NYSE:CFX) and paid a fixed amount of $35,000 for the engineering, design and fabrication of a prototype unit of the Company's Applied Oil Technology (AOT™). Colfax Corporation serves customers around the world with fluid-handling solutions that address business challenges in the harshest environments. Colfax designs, engineers, manufactures, distributes and supports pumps and systems for key markets worldwide such as: Commercial Marine, Defense, General Industrial, Lubrication, Oil & Gas, and Power Generation. The prototype is being constructed for testing purposes with the US Department of Energy at the Rocky Mountain Oilfield Testing Center on the US Naval Petroleum Reserve No. 3 (NPR-3) in Wyoming. The prototype is the next step in the Company's technology translation from laboratory to field application, and marks a major milestone in the development process.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
31.2	Certification of Interim Chief Financial Officer of Quarterly Report pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
32	Certification of Chief Executive Officer and Interim Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this Report to be signed on its behalf by the undersigned, hereunto duly authorized.

SAVE THE WORLD AIR, INC.

Date: November 15, 2010	By:	/s/ EUGENE E. EICHLER
		Eugene E. Eichler
		Interim Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
31.2	Certification of Interim Chief Financial Officer of Quarterly Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e)
32	Certification of Chief Executive Officer and Interim Chief Financial Officer of Quarterly Report Pursuant to 18 U.S.C. Section 1350

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

AND RULES 13A-14 AND 15D-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Cecil Bond Kyte, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Save the World Air, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(d)-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2010

/s/ CECIL BOND KYTE

Cecil Bond Kyte
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

AND RULES 13A-14 AND 15D-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Eugene E. Eichler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Save the World Air, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) or 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(d)-15(f) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its condensed consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2010	/s/ EUGENE E. EICHLER
	Eugene E. Eichler

Interim Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF PERIODIC FINANCIAL REPORT BY THE CHIEF EXECUTIVE

OFFICER AND CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Acting Chief Executive Officer and the Chief Financial Officer of Save the World Air, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2010 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 15, 2010	/s/ CECIL BOND KYTE Cecil Bond Kyte Chief Executive Officer
Date: November 15, 2010	/s/ EUGENE E. EICHLER Eugene E. Eichler Interim Chief Financial Officer